AR71

University of Alberta
Business Building
Alberta T6G 2R6

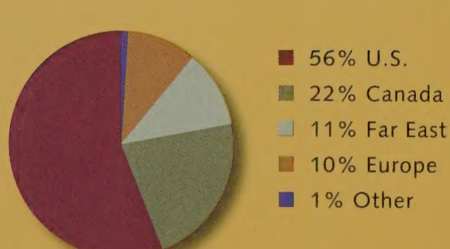
1999 ANNUAL REPORT

OPERATING HIGHLIGHTS

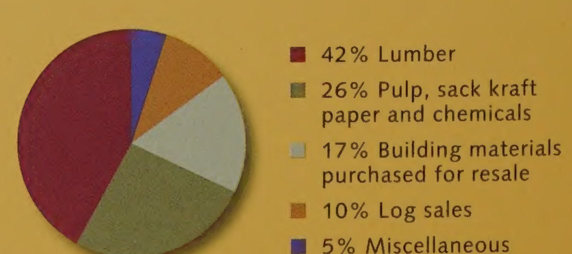
		1999[3]	1998[5]
Sales and income (millions of dollars)	Net sales	**$1,750.3**	$1,418.0
	Net income (loss) before non-recurring items[1]	**106.9**	(28.0)
	Net income (loss)	**102.6**	(203.7)
Cash flow (millions of dollars)	Cash flow from operations	**$ 210.9**	$ 90.0
Per common share (dollars)	Net income (loss) before non-recurring items[1]	**$ 1.75**	$ (0.48)
	Net income (loss)	**1.68**	(3.49)
	Net income (loss) – fully diluted	**1.61**	(3.49)
	Cash flow from operations	**3.47**	1.54
	Common shareholders' equity	**11.12**	7.30
Financial position (millions of dollars)	Working capital	**$ (15.2)**	$ 261.0[2]
	Total assets	**2,347.6**	1,394.9[2]
	Long-term liabilities	**491.7**	510.7[2]
	Common shareholders' equity	**901.8**	426.0
	Total capitalization	**1,532.5**	1,032.9[2]
Additional information	Return on capital employed	12.3%	(0.7)%[4]
	Return on assets	7.8%	(0.6)%[4]
	Return on common shareholders' equity	15.4%	(38.5)%
	Ratio of current assets to current liabilities	1:1	1.7:1
	Ratio of net debt to common shareholders' equity	43:57	50:50
	EBITDA (millions of dollars)[6]	$ 288.1	$ 98.3[4]
	EBITDA margin	16.5%	6.9%
	Capital expenditures (millions of dollars)	$ 119.9	$ 40.8[4]

(1) Non-recurring items refers to discontinued operations and losses related to Howe Sound Pulp and Paper Limited.
(2) Excludes Canfor's proportionate share of Howe Sound Pulp and Paper Limited.
(3) Includes the results of Northwood Inc. from November 23, 1999.
(4) Restated for comparative purposes to exclude Canfor's proportionate share of Howe Sound Pulp and Paper Limited.
(5) Comparative figures have been restated to conform to the 1999 presentation of discontinued operations.
(6) EBITDA represents operating income plus depreciation, depletion and amortization.

Net sales by market

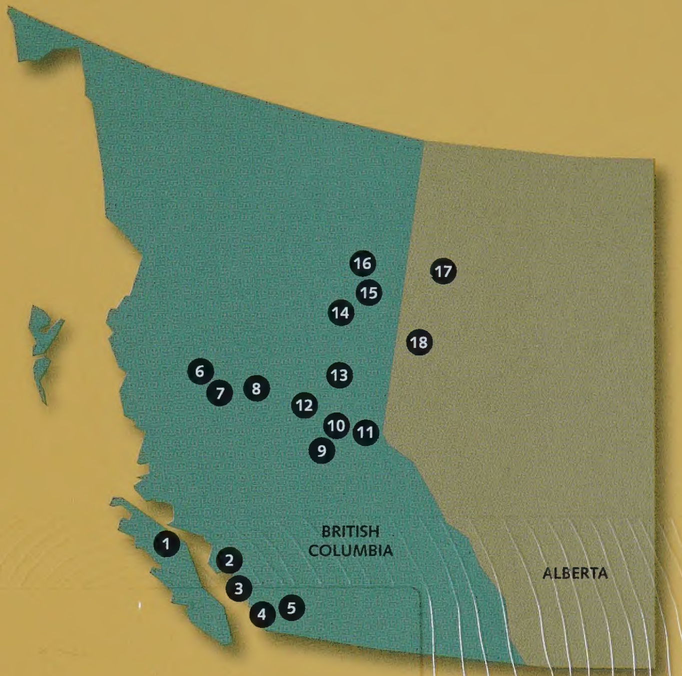


Net sales mix by product line



THE NEW CANFOR – OPERATIONS AND OFFICES

1 Englewood
2 Sunshine Coast
3 Howe Sound
Pulp and Paper
4 Vancouver
Panel and Fibre
Research and
Development
Canfor Wood
Products Marketing
Canfor Pulp and
Paper Marketing
5 Harrison
6 Kyahwood
Forest Products J.V.
7 Houston
8 Fort St. James
9 Clear Lake
10 Prince George
B.C. Chemicals
Intercontinental Pulp Mill
J.D. Little Forest Centre
North Central Plywoods
Northern Specialties
Northwood Pulp Mill
Prince George
Pulp and Paper Mill
Prince George Sawmill
PG Wood Treating Plant
Rustad
Executive Offices
Administration Centre
11 Upper Fraser
12 Isle Pierre
13 Polar
14 Chetwynd
15 Taylor
16 Fort St. John
17 Hines Creek
18 Grande Prairie



Corporate Office
Vancouver, B.C.

Woodlands
Chetwynd
Clear Lake
Englewood
Fort St. James
Fort St. John
Fraser Region
Grande Prairie
Harrison
Hines Creek
Houston Region
Isle Pierre
Netherlands
Polar
Sunshine Coast
Taylor

Lumber Manufacturing Production
Chetwynd: 163,134 Mfbm
Clear Lake: 126,244 Mfbm
Fort St. James: 200,976 Mfbm
Fort St. John: 174,041 Mfbm
Grande Prairie: 180,231 Mfbm
Hines Creek: 90,767 Mfbm
Houston: 31,002* Mfbm
Isle Pierre: 109,443 Mfbm
Netherlands(1): 19,431 Mfbm
Prince George Sawmill:
12,417* Mfbm
Polar: 187,721 Mfbm
Rustad: 17, 372* Mfbm
Taylor: 71,101 Mfbm
Upper Fraser: 22,715* Mfbm

Lumber Remanufacturing
Bellingham, Washington
(not shown): 82,766 Mfbm
Clear Lake: 28,426 Mfbm
Grande Prairie: 7,437 Mfbm
Northern Specialties: 7,370 Mfbm
Kyahwood Forest Products JV:
2,230* Mfbm

Plywood Production
North Central Plywood:
16,663* msf (3/8" basis)

Nurseries/Seed Orchards
J.D. Little Forest Centre
Grande Prairie
Sunshine Coast
Vernon Seed Orchard**

Wood Fibre Products
Panel and Fibre

Pulp and Paper Production
Intercontinental Pulp Mill
Pulp: 295,158 tonnes
Northwood Pulp Mill
Pulp: 56,926* tonnes
Prince George Pulp and Paper Mill
Pulp: 169,710 tonnes
Kraft Paper: 103,701 tonnes
Howe Sound Pulp and Paper ***
Pulp: 332,953 tonnes
Newsprint: 197,486 tonnes

Chemicals Manufacturing
B.C. Chemicals

Wood Products Marketing
Canfor Wood Products Marketing
Vancouver, B.C.

Pulp and Paper Marketing
Canfor Pulp and Paper Marketing
Vancouver, B.C.

Canfor Georgia -Pacific
Japan Corporation
Tokyo, Japan Joint Venture *(not shown)*

Canfor Europe
Brussels, Belgium *(not shown)*

Canwel Distribution Ltd. (2)

Research and Development
Canfor Research and
Development Centre

(1) Closed first quarter of 1999
(2) Canfor's 50% share sold in December, 1999
* Last 6 weeks of 1999
** Jointly owned with Riverside Forest Products, Weldwood of Canada, and West Fraser Timber
*** 50% owned by Canfor

FINANCIAL HIGHLIGHTS

CANFOR

WHERE FORESTRY IS GOING.

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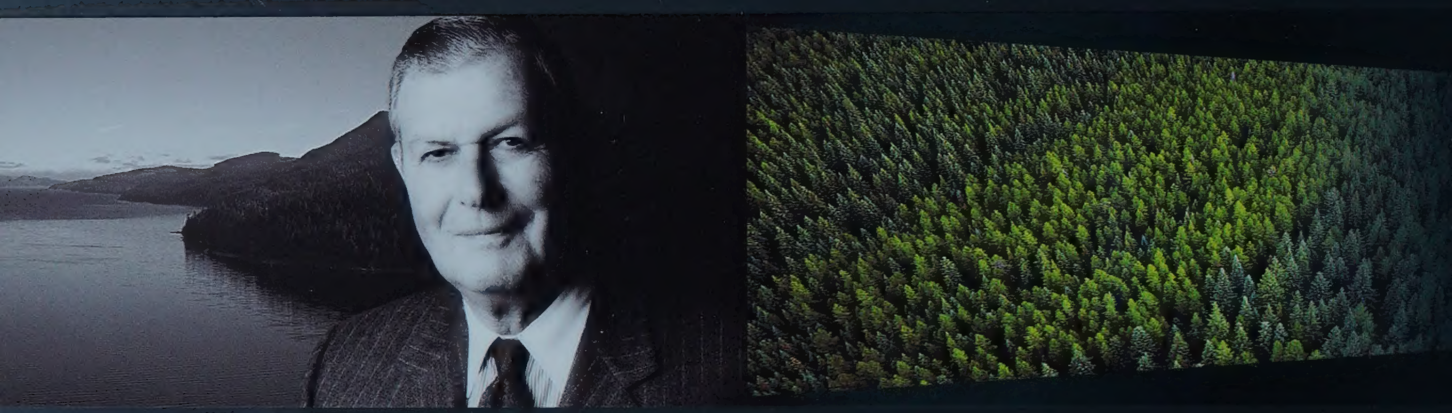
Innovation. A word seldom associated with a forest products company. However, at Canfor, it's the one word that best describes the path we are on. From our business practices to our products, from the importance we place on workplace safety to our efforts in environmental stewardship, innovative thinking guides our every action. This annual report celebrates the spirit of innovation.

From a significant loss in 1998, to a profit of $106.9 million in 1999. From a share price of $4.25 on December 31st, 1998, to $17.05 at the close of the year 1999. From a mid-size lumber and pulp producer in 1998, to Canada's largest lumber producer and third largest producer of market pulp.

1999 was an exceptional year for Canfor.



Peter J.G. Bentley *Chairman*

MESSAGE TO SHAREHOLDERS

Early in 1998, Canfor's Board and management put in place a five-year strategy to grow and strengthen the company, and to see substantial improvements in the market value of our common shares. By implementing a program of operational improvements, refocusing on our core business strengths, and pursuing strategic merger/acquisition opportunities, we are well on our way to achieving our goals.

With year two of our five-year plan now complete, we are pleased to report that we are on track in every area and delivering on our commitment to significantly enhance shareholder value.

In the area of cost reduction and productivity improvement, we have made solid progress in each business unit. In Wood Products, productivity has improved by nine per cent, conversion costs are better by $18 per thousand board feet of lumber, and lumber recovery is up by five per cent over 1997 results. In

Pulp and Paper, productivity improved by 13 per cent while conversion costs declined by $19 per tonne for the same period.

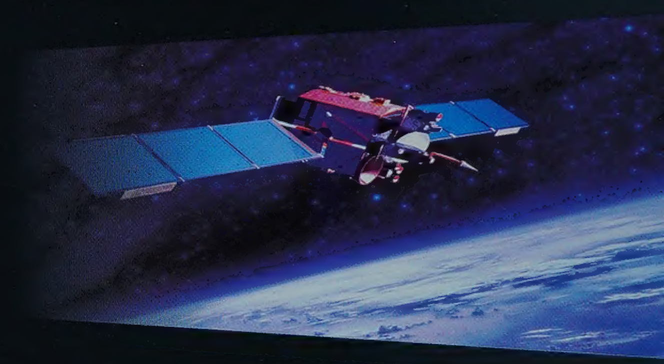
We continued to focus our business around products that capitalize on the exceptional fibre base found in northern British Columbia and Alberta. Our capital program for the year amounted to approximately $120 million, most of which was committed to mill modernization projects that met or exceeded our stringent investment hurdle of 30 per cent return (IRR) after tax. The projects, which were completed on time and on budget, will make a major contribution to our results in 2000.

In keeping with the strategic plan, the company continued to divest non-core assets. In 1999, Canfor sold its 50 per cent share of Canwel Distribution Ltd. This follows the 1998 sale of the Meridian, Idaho remanufacturing facility, Balfour Timber in the United Kingdom, and the write-off of our investment in Howe Sound Pulp and Paper Limited.

Without question, the most significant action for Canfor in 1999 was the acquisition of 100 per cent of Northwood Inc. from the Mead Corporation of Dayton, Ohio and Nexfor Inc. of Toronto, Ontario. The acquisition effectively doubles the company's pulp production to over one million tonnes, increasing our leverage to pulp at a time when world inventories are low and market prices are rising. It also boosts Canfor's softwood lumber production by one billion board feet, making Canfor Canada's largest softwood lumber producer. With this added capacity, we will keep pace with the growth of our strategic customers, particularly those in the "do-it-yourself" retail market.

While Canfor today is substantially stronger and more competitive than a year ago, there are some things we have not changed. Our company continues to lead the industry in workplace safety. Our forest and environmental stewardship continues to be a source of pride and leadership, both in terms of our standards and practices. This commitment is reflected in our receiving ISO 14001 certification of our forest operations, and in our innovative technological capability that we have developed in-house and are now marketing as a new product line.

While we are pleased with our progress to date, the year ahead will not be a time for complacency. The industry is changing and consolidating and we will be a pro-active participant. Our capital structure is improving rapidly, and we should see a significant reduction in our debt/equity ratio. Similarly, our

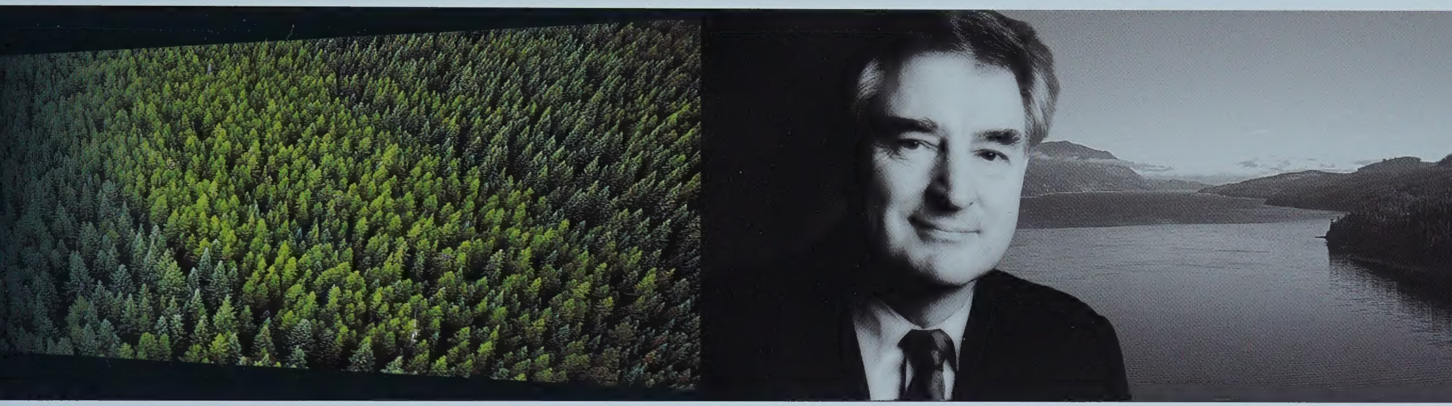


"We are on track to deliver on our commitment to significantly enhance shareholder value."

profitability continues to strengthen and we expect to reach new plateaus in 2000 as the integration of Northwood into Canfor produces cascading operational improvements over the next 24 months.

Canfor's real advantage has been, and continues to be, our people. Through sometimes difficult but always exciting changes, our people have shown remarkable dedication and commitment. We thank our employees past and present for all they have accomplished. In particular, we would like to welcome new employees that came to Canfor as a result of the Northwood acquisition. United, focused, and committed, Canfor has become a formidable team that can successfully tackle the enormous challenges that lie ahead.

The Board of Directors also saw changes in 1999, with the addition of Eric Newell, O.C., Chairman and Chief Executive Officer of Syncrude Canada Ltd., and the resignation of Barbara Hislop. Mrs. Hislop was one



David L. Emerson *President and Chief Executive Officer*

of the Prentice-Bentley family representatives, and as the Matthews-Cartier percentage of Canfor shares decreased as a result of the Northwood acquisition, the family representation was reduced accordingly. Mrs. Hislop continues actively serving the company as Group Vice-President, Wood Products, and we thank her for her contribution to the Board since 1987.

Also, Mr. Gordon Armstrong, formerly Senior Vice-President, Finance, will not be standing for re-election to the Board at the Annual General Meeting. We would like to thank him for his enormous contribution, having served on the Board since 1983. Mr. Armstrong will continue on with the Company in a consulting role.

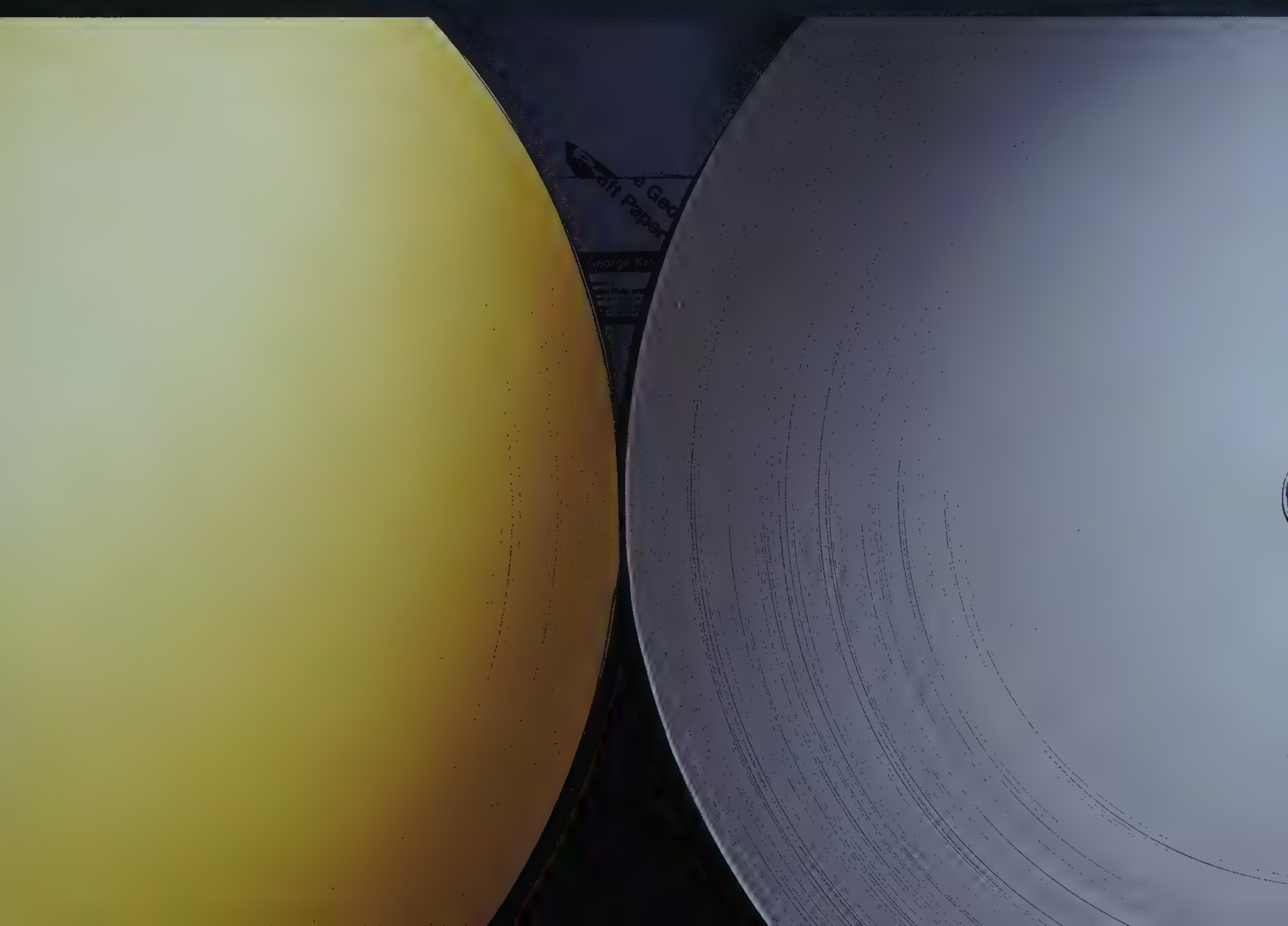
To our shareholders, we thank you for your support and look forward to another banner year in 2000.

Peter J.G. Bentley
Chairman

David L. Emerson
President and Chief Executive Officer


PULP & PAPER

Pulp and paper is a core business for Canfor and we are well positioned to take advantage of improving markets in the year 2000. We will also continue to pursue value-added and niche market opportunities like the coloured packaging paper seen in this photo.

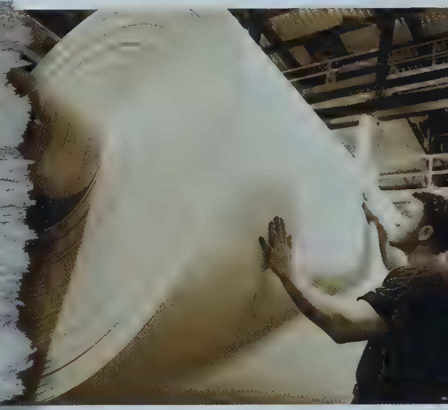


PULP AND PAPER

Canfor's pulp and paper business includes two pulp mills and one pulp and paper mill located in Prince George, British Columbia. The Intercontinental and Northwood pulp mills produce high quality northern softwood kraft pulp while the Prince George Pulp and Paper Mill produces both northern softwood kraft pulp and kraft paper. In addition to these operations, Canfor owns 50 per cent of Howe Sound Pulp and Paper Limited (HSPP), with Oji Paper Co., Ltd. of Japan. HSPP is located at Port Mellon on the Sunshine Coast and produces northern softwood kraft pulp for Canfor and newsprint primarily for the Japanese market. Together, these mills are recognized for producing products of premium strength, ideally suited for printing and writing papers, tissue, paper board and packaging, and specialty papers.

With the additional capacity of the Northwood Pulp Mill, Canfor is now among the largest producers of high-quality northern bleached softwood kraft pulp in Canada.

The acquisition of Northwood more than doubled the Company's pulp production to over one million tonnes annually.



Year in Review

1999 was a year focused on growth, increasing efficiencies and lowering costs.

Canfor bolstered its pulp production in 1999 with the acquisition of Northwood and the addition of the Northwood Pulp Mill to Canfor's pulp and paper operations. This increased Canfor's annual pulp production by 56,926 tonnes in 1999, calculated from the close of the acquisition on November 23rd, and is anticipated to add 545,000 tonnes to Canfor's total production in the year 2000.

In addition to growing capacity, Canfor made investments focused on improving efficiencies and lowering costs. Projects completed in 1999 include: the installation of a new chip handling system at both the Prince George Pulp and Paper and Intercontinental Pulp mills; the drive rebuild of the paper machine at Prince George Pulp and Paper; and the installation of a new chip conditioner and third hog press at Howe Sound Pulp and Paper. Other projects approved and initiated in 1999 include the installation of a co-generation turbine at the Intercontinental Pulp Mill and the second phase rebuild of the paper machine at the Prince George Pulp and Paper Mill. Both investments will substantially reduce the cost of production in the year 2000.

Canfor realized returns from the restructuring of its pulp and paper operations in the previous year and took advantage of a recovering pulp and paper market in 1999. All mills had record years for pulp production. Prince George Pulp and Paper and Intercontinental Pulp had a combined production of 464,868 tonnes compared to 453,202 in 1998. The Northwood Pulp Mill exceeded its budgeted production for the last six weeks of 1999 by 1,371 tonnes. HSPP had it's best year ever recorded with the production of 332,953 tonnes of pulp.

On the kraft paper front, despite taking considerable downtime to overhaul the drives on the paper machine, Prince George Pulp and Paper produced 103,701 tonnes of kraft paper, only 881 tonnes less than 1998. This upgrade will increase the paper machine's capacity by 20,000 tonnes per year.

Production numbers for 1999 were, in large part, a result of the restructuring of the pulp and paper business at Canfor in 1998 and capital investments made to improve efficiencies. In addition to these improvements, the recovering pulp and paper markets allowed Canfor's mills to run without taking any market downtime. Pulp prices improved from a low of $460 a tonne U.S. to close out at $600 a tonne U.S. by the end of 1999. The market went from being an oversold to a tight market with demand catching up to supply and producers' inventories falling to a supply of 17 days at the end of the year.

Canfor markets specialty packaging papers to customers around the world.

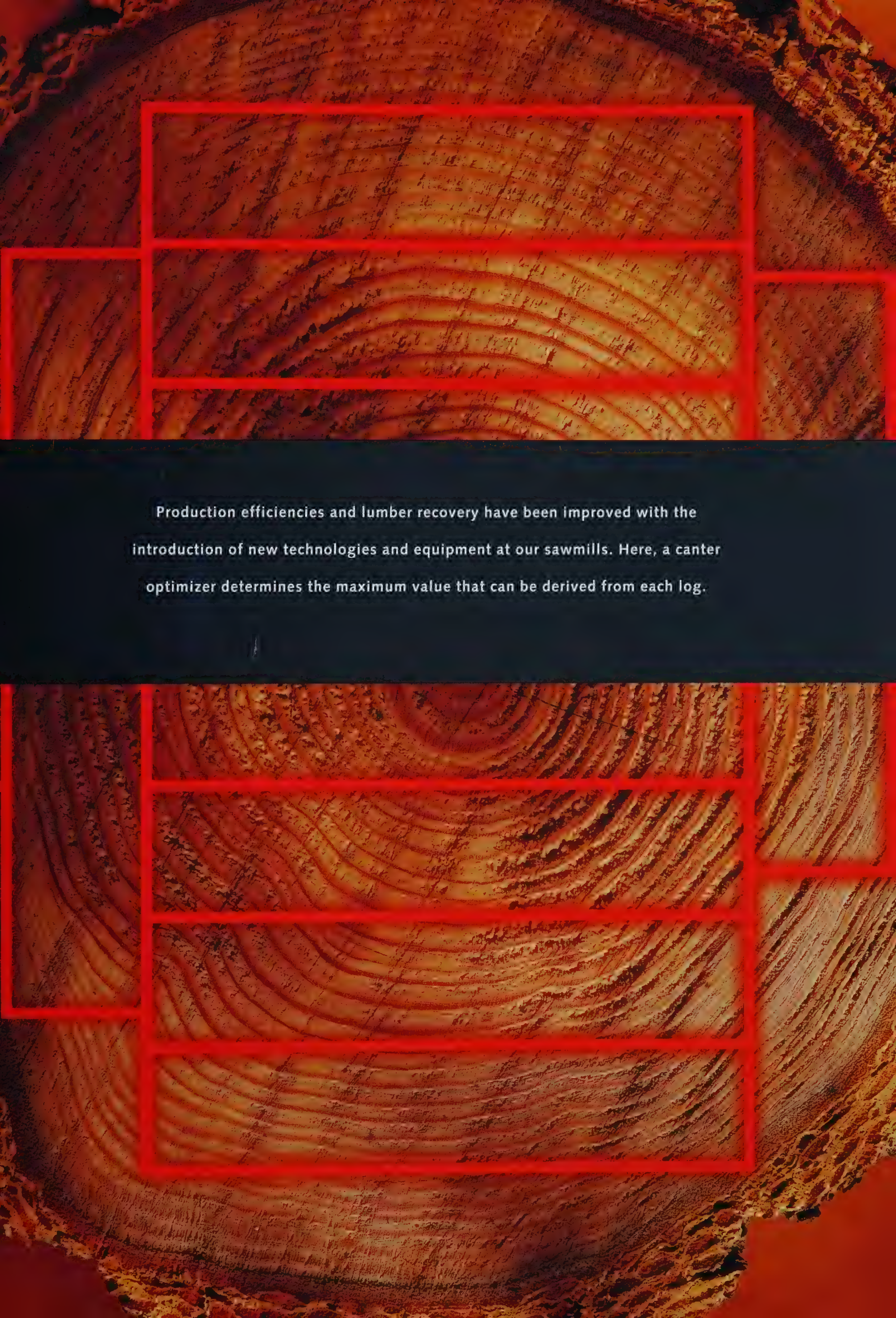
Success in Safety

For the seventh consecutive year, employees at the Prince George Pulp and Paper and Intercontinental Pulp mills were ranked as the safest mills in the B.C. pulp and paper industry. The two mills ranked first and second respectively for the lowest accident frequency out of 20 pulp mills in the province. The Northwood Pulp Mill made tremendous strides in improving its safety record with both management and hourly workers agreeing to work together to reorganize and refocus the mill's safety program. This new cooperative approach resulted in the reduction of days lost to injury at the mill by 60 per cent.

New Products

Making good on its commitment to produce a new high performance paper, Canfor's Prince George Pulp and Paper Mill introduced KODIAK KRAFT™ in September of 1999. This new high performance paper product is used in industry packaging and is the only product produced in North America that is offered in a bleached form without compromising its strength and performance. The market acceptance of this product has been very encouraging. Canfor is continuing work on other specialized packaging paper and label products to introduce later in 2000.

WOOD PRODUCTS



Production efficiencies and lumber recovery have been improved with the introduction of new technologies and equipment at our sawmills. Here, a canter optimizer determines the maximum value that can be derived from each log.

WOOD PRODUCTS

With the acquisition of Northwood, Canfor's Wood Products Group includes 13 sawmills in central and northern British Columbia and northern Alberta with an annual production capacity of 2.6 billion board feet. In addition, the Wood Products Group operates three value added mills producing finger-joint and laminated products and a plywood mill with a capacity of 167,000 msf (3/8" basis).

Year in Review

The Wood Products Group effectively implemented their annual strategy for 1999 and continued to improve efficiencies and reduce costs. Operational improvements, combined with improved lumber prices, made 1999 a good year for the Wood Products Group.

Canfor's annual lumber production capacity has grown to 2.6 billion board feet.

In 1999, Canfor invested over $49 million in sawmill upgrades at Fort St. James, Isle Pierre, and Chetwynd, the benefits of which are now being realized. During this period, lumber prices averaged 19 per cent higher than 1998 at $343 U.S. for a thousand board feet of spruce/pine/fir (SPF) 2" x 4" random length. Due to the shutdowns required to carry out the mill upgrade construction and the severe quota restrictions imposed by the Canada/U.S. Softwood Lumber Agreement, Canfor curtailed its production by 86.7 million board feet in the year.

Mill Rationalization

Working in cooperation with the union representing the workers, Canfor closed down the Netherlands Sawmill in the first quarter of 1999. The agreement between Canfor and the IWA Local 1-424 facilitated a seamless transition for workers who chose either to continue working at other Canfor sites or to take advantage of the enhanced severance arrangements made available to employees who chose to pursue other career opportunities.

Certification

The Wood Products Group also participated in the International Organization for Standardization (ISO) 14001 certification process for Canfor's forest operations, the largest of its kind in North America. The ISO 14001 certification is the first step in achieving Canadian Standards Association (CSA) and Forest Stewardship Council

(FSC) certification. The newly acquired Northwood forest operations are scheduled to obtain ISO 14001 certification by the end of 2000.

Capital Improvements

Canfor embarked on a strategic capital expenditure program in 1999 to improve production efficiencies. Fort St. James received a new high-speed high-recovery curve saw line, a new sort station and an upgraded merchandiser deck. At Isle Pierre, a new optimized edger and trimmer system was installed, along with a new multi-bin sorter, stacker line and trimmer grading line for the planer. Chetwynd acquired a new high-speed, high-recovery canter line and made various lumber flow improvements within the mill. Each of these

The Wood Products Group achieved $19.7 million in cost savings this year.

capital projects was completed on budget and will meet their targeted efficiency improvements and return on capital invested. These investments allowed Canfor to introduce third shifts at both Chetwynd and Isle Pierre to better utilize capital employed at these operations.

Capital investments of an additional $24 million have been approved for 2000.

Improved Efficiency

In 1999, the Wood Products Group was able to realize $19.7 million of cost savings or $14.50 per thousand board feet as a result of capital improvements, administrative restructuring and rationalization. In addition to the cost savings, employee productivity increased by a factor of five per cent and the lumber recovery factor improved by one per cent. One of the biggest efficiency improvements made was the 37 per cent reduction in administrative costs as a result of the restructuring from the previous year.

Improved Safety

The Wood Products Group made further progress in improving its safety performance in 1999. Despite the on-site construction at many of its mills, the Wood Products Group was able to implement a safety strategy that resulted in a 51 per cent reduction in lost-time accidents and a five per cent reduction in medical aids, while maintaining budgeted production levels.

COASTAL OPERATIONS

To improve efficiencies and enhance shareholder value, Canfor introduced mechanized logging practices, such as helicopter logging. This is not only more efficient but also has environmental benefits.

COASTAL OPERATIONS

Coastal Operations manages all of Canfor's fibre assets and operations on the coast of British Columbia. Included in this group are the Englewood logging operation on north Vancouver Island, the Harrison operation in the Fraser Valley and Mainland Contractors on the Sunshine Coast. Coast Fibre Supply is responsible for coordinating log sales on the coast and manages the contract to supply fibre to the Howe Sound Pulp and Paper Mill (HSPP), which Canfor jointly owns with Oji Paper Co., Ltd. of Japan.

Also included in the Coastal Operations is the Panel and Fibre operation, which uses residual fibre and urban wood to produce a variety of embossed hardboard panels and wood fibre products for agricultural, industrial and automotive applications.

Despite the shortened harvest year, Canfor managed to log 98% of its planned cut.

Year in Review

Extraordinary snowfall early in 1999 limited harvesting efforts along the coast for the entire industry thereby reducing the log supply for the year. The limited supply of logs in the market, coupled with some improvements in the Asian market, resulted in moderately improved log prices. Despite the shortened harvest year, Canfor managed to log 98 per cent of its planned cut of 1,555,204, or 1,520,097, cubic metres and get its product to market. The Coastal Operations, as a whole, showed an operating income of $30.9 million compared to a loss the year prior.

At the Englewood logging operation, a historic milestone was reached when the former logging camp of Woss became a public community. During a public ceremony in the fall of 1999, Canfor transferred its responsibility for sewage and water and other maintenance and infrastructure services over to the Regional District.

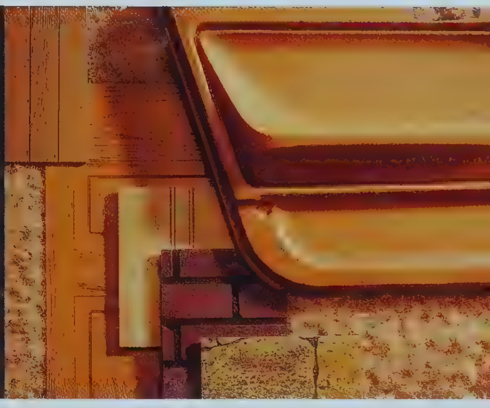
Coast Fibre Supply was restructured in February of 1999 with the objective of reducing the fibre supply costs to HSPP by reducing the time it takes to get logs to market and introducing a new log marketing structure. By becoming primarily a fibre marketer, Canfor is redirecting its marketing focus to maximizing value and fibre return.

The coastal forest operations were part of Canfor's International Organization for Standardization (ISO) 14001 certification of its forest operations, the largest certification of its kind in North America. Canfor plans to build on this certification and apply for Canadian Standards Association (CSA) and Forest Stewardship Council (FSC) certifications in the near future.

Manufacturing

Due to increased demand in 1999, gross sales of manufactured products from the Panel and Fibre operation increased by $3.4 million to $43.5 million. Panel and Fibre streamlined its product line by eliminating the Agrimat™ business and focused on products that deliver a higher return. Panel and Fibre has also

Using residual fibre and urban wood, Canfor produces a variety of hardboard panels and wood fibre products.



formalized its new business strategy, which will build on the success of 1999 and continue to focus on growing the panel business.

1999 Initiatives

In cooperation with the unions representing Englewood logging operations, a profit sharing program was introduced in the spring of 1999. In addition, Coastal Operations introduced more efficient mechanized harvesting, such as helicopter logging and the use of feller bunchers in second growth stands. These initiatives delivered benefits in 1999 as direct logging costs were reduced by 2.5 per cent and the productivity (m^3/man day) was increased by 1.8 per cent.

Safety a Priority

Coastal Operations has made tremendous strides in improving its safety programs. In 1999, our work in this area paid off. The coastal logging operations were ranked number one amongst industry peers for having the lowest lost-time accidents and lowest severity statistics. The logging operations also achieved a 50 per cent reduction in medical aids in 1999 from the previous year.


WORKPLACE SAFETY

WORKPLACE SAFETY

"Safety Comes First at Canfor" is not just a slogan but an integral part of the corporate culture. This philosophy is embraced and promoted from the mill floor to the executive offices. This commitment is reflected in the work practices and safety programs employed at our operations.

We continually strive to improve our programs and develop best practices by studying other industrial safety programs and sharing information and ideas throughout our organization. As a result, Canfor is recognized as an industry leader in workplace health and safety.

Awards and Milestones

This year, Canfor improved on its impressive safety record from the previous year, reducing its company-wide medical aids by eight per cent and lost-time accidents by nine per cent.

The 1999 President's Safety Award for over 500,000 man-hours was presented to Prince George Pulp and Paper and the Award for under 500,000 man-hours was awarded to the Taylor operation, which made significant safety improvements from the previous year. Other operations worthy of mention for their safety performance are Grande Prairie, Hines Creek and B.C. Chemicals, for operating lost-time accident free in 1999. The President's Safety Review and Awards Program will be expanded to include all new Canfor operations in the year 2000.

Canfor's PGPP Mill and coastal logging operations ranked first in their categories for 1999.

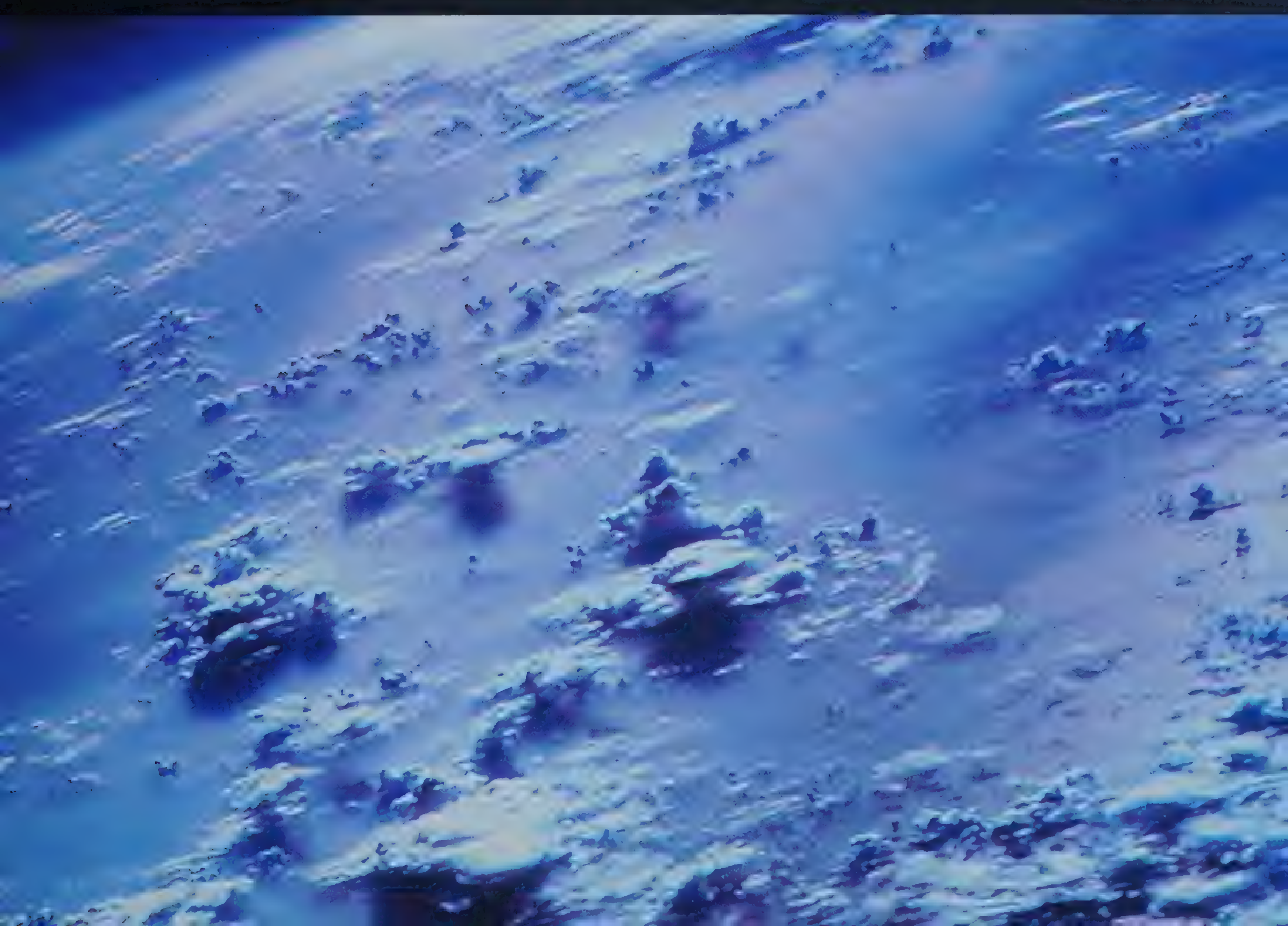
Once again, Canfor's Prince George Pulp and Paper Mill (PGPP) was ranked the safest mill in British Columbia's pulp and paper sector for 1999. The Intercontinental Pulp Mill achieved second place standing this year. This is the seventh consecutive year that these Canfor mills have been rated one and two in the industry. In addition, Canfor's coastal logging operations were ranked number one amongst their industry peers for having the lowest lost-time accidents and lowest severity statistics.

Initiatives

Developing and introducing new safety initiatives at our operations and investing in employee training are just a few of the ways in which Canfor creates a safe work environment for our employees. To enhance the development of new initiatives, Canfor will be resuming its Union-Management Safety Conference in the year 2000. At this conference, Canfor will take the opportunity to review the best practices of its operations, both new and old. The conference will also allow management and unions to discuss the importance of disability management programs at Canfor's operations.


ENVIRONMENT REPORT

Canfor utilizes satellite technology in many of its forestry practices. Global Positioning Systems (GPS) and infra-red applications provide valuable data for optimal harvesting and silviculture.



1999 was a year of significant accomplishments for Canfor. Progress on our 1999 objectives and targets included the following:

- **Certification:** All Canfor forest operations were certified under the International Organization for Standardization (ISO)(1) 14001 Environmental Management System (EMS) standard in 1999. Work is underway to certify the newly acquired Northwood forest operations to the ISO standard by the end of 2000. Canfor is also pursuing both Canadian Standards Association (CSA) and the Forest Stewardship Council (FSC) certification for some of its forest operations.
- **Environment Policy:** Canfor's Board of Directors approved a new Environment Policy in July 1999. The new Policy combines elements of both the former Forest Stewardship Policy and the former Environmental Policy.

Canfor's Forest Information Management Systems enhance the value of the forest resource by reducing the cost of wood delivered to the mill through improved planning and management.

- **Environmental Management System:** Considerable progress was made towards implementing a company-wide EMS that will meet the ISO 14001 EMS standard requirements. Procedures consistent with the ISO 14001 standard are being developed for all Canfor sawmills. Fuel Management Standards for our forest operations are close to completion. The EMS will be used as the mechanism to implement Canfor's new Forestry Principles, which represent a significant milestone in our commitment to forest stewardship.
- **Audits:** Internal audits were conducted at Canfor's PGPP Mill, Intercontinental Pulp Mill, Howe Sound Pulp and Paper Mill (HSPP), four sawmills, one remanufacturing plant and all of the legacy Canfor forest regions. ISO 14001 surveillance audits were completed at PGPP, Intercontinental Pulp Mill and HSPP by the independent registrar, Quality Management Institute. In addition, ISO 14001 registration audits were carried out at all legacy Canfor forest operations by the independent registrar, KPMG Quality Registrar Inc.

(1) The International Organization for Standardization (ISO) is a worldwide federation of national standards bodies from some 130 countries, one from each country. This non-governmental organization was established in 1947 to promote the development and standardization of related economic activities in the world.

Certification

Canfor is an industry leader in achieving certification of its forest and manufacturing operations. We currently have over three million hectares of forest lands certified under ISO 14001, which currently represents the largest ISO 14001 certification of any forest company in North America. Work is now underway to ensure that the newly-acquired Northwood woodlands operations are also certified to the ISO 14001 standard by the end of 2000.

ISO registration is an important step towards forest certification under the forest management standards of the CSA and the FSC. Canfor is pursuing certification of some of its forest operations under the CSA and FSC standards in 2000.

Canfor's commitment to environmental stewardship extends well beyond sustainable forest management. Our employees' involvement in the development of fish hatcheries has enhanced riparian habitats and increased fish stocks.

Canfor's PGPP Mill, Intercontinental Pulp Mill and the HSPP achieved ISO 14001 certification in 1998. ISO 14001 certification of the Northwood Pulp Mill is targeted for completion by the end of 2000.

Forestry Principles

In the fall of 1998, a task force of Canfor staff, aided by a panel of outside experts, began developing Canfor's Forestry Principles.

The Principles are based on the tenants of ecosystem management, continuous improvement, public involvement and third party verification of performance. Canfor views these Principles as a fundamental component in improving its existing sustainable forestry practices, ensuring the transparency of its operations and fulfilling registration requirements for CSA and FSC certification.

The Principles were approved by Canfor's Board of Directors in mid-1999 and introduced to all forest operations in the company by year-end.

Greenhouse Gas Emissions

Canfor has surpassed its commitment under Canada's Climate Change Voluntary Challenge and Registry Program to stabilize greenhouse gas (GHG) emissions at 1990 levels by the year 2000. Canfor is ahead of schedule to meeting Canada's Kyoto GHG reduction target of six per cent below 1990 levels by the reporting

deadline of between 2008 and 2012. For 1998, the most recent year of reporting, Canfor's GHG emissions were 6.8 per cent below 1990 levels.

Regulatory Compliance

Canfor's forest and manufacturing operations continue to have a very good compliance record. We take pride in this achievement and continuously strive to improve our environmental programs and systems in order to maintain a high operating standard. Our commitment to the environment is an integral part of our corporate culture and is reflected in Canfor's compliance record.

Forestry

Canfor's record for compliance in 1999 improved over 1998. The following is an account of the incidents and contraventions finalized during the 1999 calendar year, as well as those from previous years that were determined in 1999.

Northwood (November 23, 1999 – December 31, 1999)

No incidents involving contraventions occurred during this period for legacy Northwood operations.

British Columbia:

Under the British Columbia Forest Act

Two incidents involving improper timber marking and scale site designation resulted in two contraventions.

Under the British Columbia Forest Practices Code Act

Two incidents of minor forest fringe damage while burning slash resulted in three contraventions. One incident where established plans were not followed precisely resulted in one contravention.

Spills

In B.C., there were three reportable spills at our forest operations, two of diesel fuel and one minor spill of hydraulic oil. All were contained, cleaned up and reported to the appropriate regulatory authorities.

A number of alleged incidents are under review by the government. There were also a number of alleged minor incidents that resulted in informal actions such as warning tickets and a stop work order that were resolved in the field.

The contraventions listed above for legacy Canfor operations in B.C. resulted in administrative fines totaling $1,791.

Alberta:

Under the Alberta Forests Act

Three incidents where established plans were not followed precisely resulted in written warnings with no monetary penalties.

Manufacturing

Canfor continues to make improvements in its manufacturing compliance record. Noteworthy in 1999, were improvements in the areas of effluent management and spill prevention. In 1999, Canfor and Howe Sound Pulp and Paper had the following non-compliance situations (reported in accordance with government non-compliance reporting criteria).

Effluent

Failure of one trout toxicity test for sanitary effluent due to zinc, believed to be from natural sources, and one out of 15 trout toxicity tests for a clean water sewer effluent again due to zinc. The hardness of the clean water sewer effluent has been raised to eliminate the zinc concern.

Air

Emissions from several of Canfor's beehive burners occasionally exceeded permit limits for opacity. Operational problems with the burners were corrected to achieve compliance.

In 1999, following an appeal by the Crown of the amount of the fine levied by the Court for an accidental release of turpentine odours from the Intercontinental Pulp Mill in 1995, Canfor agreed to an increased fine from $50,000 to $75,000 in exchange for dropping requirements that Canfor cover investigation costs.

Spills

In 1999, Canfor decreased the number of spills by close to 50 per cent at its manufacturing operations. Canfor and HSPP manufacturing operations had seven reportable spills in 1999. These spills included:

- A halon release to the air from a fire suppression system that quickly dispersed.
- Sodium chlorate from an overhead pipe bridge leaked to the ground where it was washed down and the wash water collected and treated.
- Two spills of pulping liquors to the ground, which were contained and cleaned up quickly.
- One instance where foam from an unknown source was observed in a storm sewer, one small spill of sanitary effluent to the ocean resulted from a failed pump and one small spill of hydraulic oil to the ocean occurred from a broken fitting. These spills were also detected and cleaned up promptly.

OBJECTIVES AND TARGETS FOR 2000

Environmental Management System

- We will bring legacy Northwood operations into the company-wide EMS.

Certification

- We will achieve ISO 14001 certification of the Northwood Pulp Mill and legacy Northwood forest operations.
- We will continue to work towards certification of area-based forest tenures in B.C. and Alberta under the CSA and FSC standards.
- We will take steps to implement our Forest Principles, which includes communicating them to our employees, communities and other interested parties.

Canfor planted over 25 million seedlings in 1999.

Audit Program

- We will conduct internal audits of three pulp and paper mills, four sawmills, a wood preserving plant, a specialty products plant, a hardboard panel and wood fibre products plant and all of our forest regions.

Reducing Greenhouse Gas Emissions

- We will integrate the newly acquired Northwood operations into our GHG emission reporting and projections.

Environment Policy

We are committed to responsible stewardship of the environment throughout our operations.

We will:

- Comply with or surpass legal requirements.
- Comply with other environmental requirements to which the company is committed.
- Set and review environmental objectives and targets to prevent pollution and to achieve continual improvement in our environmental performance.
- Create opportunities for interested parties to have input to our forest planning activities.
- Practice forest management that recognizes ecological processes and diversity and supports integrated use of the forest.
- Promote environmental awareness throughout our operations.
- Conduct regular audits of our environmental management system.
- Communicate our environmental performance to our Board of Directors, shareholders, employees, customers and other interested parties.

D.L. Emerson
President and Chief Executive Officer

P.J.G. Bentley
Chairman

July 21, 1999

CANFOR

FORESTRY PRINCIPLES

Ecosystem Management

We will use the best available science to develop an understanding of ecological responses to natural and human-caused disturbances. We will incorporate this knowledge into higher level and operational plans by applying ecosystem management principles to achieve desired future forest condition.

Scale

We will define objectives over a variety of time intervals (temporal scales), and at spatial scales of stand, landscape and forest.

Adaptive Management

We will use adaptive management to continually improve forest ecosystem management. This will require the development and implementation of collaborative research and monitoring programs.

Old Growth

We will include old growth and old growth attributes as part of our management strategies and philosophy in the forests where we operate.

Timber Resource

Canfor will ensure a continuous supply of affordable timber in order to carry out its business of harvesting, manufacturing and marketing forest products. Canfor will strive to maximize the net value of the fibre extracted for sustained economic benefits for employees, communities and shareholders.

Forest Land Base

We advocate the maintenance of the forest land base as an asset for the future.

Health and Safety

We will operate in a manner that protects human health and safety.

Aboriginal People

We will pursue business partnerships and cooperative working arrangements with aboriginal people to provide mutual social, cultural, and economic benefits and to address mutual interests.

Communities

We will engage members of the public, communities and other stakeholders in the delivery of the Forest Principles. The process will be open, transparent and accountable.

Accountability

We will be accountable to the public for managing the forest to achieve present and future values. We will use credible, internationally recognized, third party verification of our forestry operations as one way of demonstrating our performance.

D.L. Emerson
President and Chief Executive Officer
June 1999

P.J.G. Bentley
Chairman

FINANCIALS

SUMMARY OF OPERATING RESULTS

Year ended December 31	1999 (1)	1998 (2)
Sales Volume – major products		
Lumber – Mfbm (3)	**1,433,793**	1,422,621
Pulp – tonnes	**548,673**	449,513
Specialty Kraft Paper – tonnes	**102,682**	102,396
Logs – m^3	**1,570,406**	1,204,005
(millions of dollars)		
Sales		
Northern Wood Products	**$ 1,092.9**	$ 903.5
Pulp and Specialty Kraft Paper	**430.4**	347.3
Coast Wood Products	**211.0**	152.8
Chemicals	**16.0**	14.4
Total sales	**$ 1,750.3**	$ 1,418.0
Segmented operating income from continuing operations		
Northern Wood Products	**$ 160.1**	$ 49.2
Pulp and Specialty Kraft Paper	**45.3**	14.9
Coast Wood Products	**30.9**	(0.5)
Chemicals	**4.8**	4.0
Total segmented operating income from continuing operations	**241.1**	67.6
Non-segmented income (expenses) from continuing operations		
Non-segmented expenses	**(23.2)**	(34.5)
Equity in income (loss) of affiliated companies	**7.8**	(5.6)
Net interest expense	**(33.2)**	(38.0)
Other income (expense)	**(9.6)**	8.1
Income tax expense	**(76.0)**	(2.6)
Total non-segmented expenses	**(134.2)**	(72.6)
Net income (loss) from continuing operations before unusual items, discontinued operations and losses related to HSPP (4)	**106.9**	(5.0)
Unusual items – after tax	**–**	(23.0)
Net income (loss) before discontinued operations and losses related to HSPP (4)	**106.9**	(28.0)
Net loss from discontinued operations	**(4.3)**	(3.8)
Losses related to from HSPP (4)	**–**	(26.0)
Write-off of investment in HSPP (4) – after tax	**–**	(145.9)
Net income (loss)	**$ 102.6**	$ (203.7)
Cash flow from operating activities	**$ 210.9**	$ 90.0
(dollars per common share)		
Net income (loss) before discontinued operations and losses related to HSPP (4)	**$ 1.75**	$ (0.48)
Net income (loss)	**1.68**	(3.49)
Net income (loss) – fully diluted	**1.61**	(3.49)
Cash flow from operating activities	**3.47**	1.54

(1) The results of Northwood are included from November 23, 1999.

(2) Comparative figures have been restated to conform to the 1999 presentation of discontinued operations.

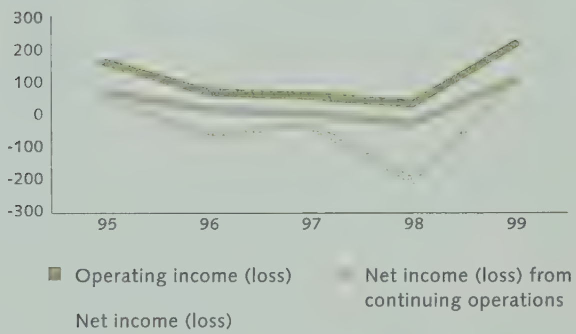
(3) Lumber sales volume represents Canfor production only.

(4) HSPP refers to Howe Sound Pulp and Paper Limited.

In 1999, Canfor continued to transform its business and focus its efforts on maximizing shareholder value. The Company's three-part strategy includes an aggressive program of operational improvements, a refocusing on core business strengths, and the pursuit of strategic merger and acquisition opportunities. The year was highlighted by the acquisition of all of the outstanding shares of Northwood Inc. ("Northwood" or the "Northwood Acquisition") from The Mead Corporation and Nexfor Inc., resulting in the addition of four sawmills, a two-line northern bleached softwood kraft pulp mill, a wood-treating plant, two whole-log chipping facilities and a plywood mill. In addition, the Northwood Acquisition included long-term forest tenures that complement Canfor's existing fibre supply. Overall, the acquisition increases Canfor's critical mass and enhances the profitability in Canfor's core business segments. The Northwood Acquisition represents an excellent addition to Canfor's wood products, pulp and specialty paper businesses.

Net income and operating income

$ millions



Canfor continued to review non-core and/or underperforming assets to assess how best to realize maximum value for shareholders and decisions were made to exit certain non-strategic operations. Canfor sold its 50 per cent investment in Canwel Distribution Ltd. (CanWel), which operated in the wholesale building materials distribution business, and continued to hold discussions with Oji Paper Co., Ltd. regarding restructuring the joint venture in Howe Sound Pulp and Paper Limited (HSPP). As disclosed and provided for in 1998, the Netherlands Sawmill in Prince George, British Columbia, was closed in March 1999.

Canfor's net income before discontinued operations for 1999 was $106.9 million with operating income for the year of $217.9 million. The turn-around from the loss of $28.0 million before discontinued operations and the losses related to HSPP in 1998 can be mainly attributed to overall improvements in Canfor's markets for wood products, coastal logs, pulp and specialty kraft paper. In addition, the improved 1999 results reflect the impact of the initiatives taken in 1998 to restructure Canfor's operations and improve profitability. Unusual costs incurred in 1998 included the $145.9 million, after tax, write-off of Canfor's investment in HSPP and a $25.7 million, after tax, provision for the cost of the restructuring and cost reduction program.

The following discussion of Canfor's operating results relates to the operating segments and the non-segmented items as per the Statement of Segmented Information in the Financial Statements.

Northern Wood Products

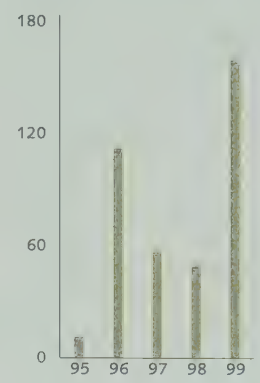
Canfor's Northern Wood Products segment is comprised of Canfor's 13 sawmilling operations, two finger-jointing operations, a plywood manufacturing operation and two lumber remanufacturing operations. Included in the business segment are the logging and forestry activities, which support those operations, a wood-treating operation, two whole-log

chipping operations and Canfor's lumber, plywood and panelboard marketing operations. The results for the Northern Wood Products segment for 1999 and 1998 were as follows:

(millions of dollars)	1999 (1)	1998
External sales	$ 1,092.9	$ 903.5
Sales to other segments	56.1	57.8
Total sales	$ 1,149.0	$ 961.3
Operating income of the segment	$ 160.1	$ 49.2
EBITDA	$ 185.7	$ 77.1
EBITDA margin	16.2%	8.0%

(1) Includes Northwood's results from November 23, 1999.

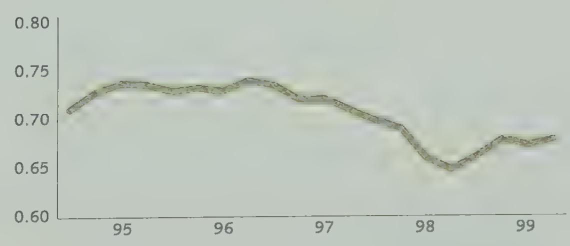
Operating income (loss) – Northern Wood Products
$ millions



The $110.9 million increase in the operating income of the Northern Wood Products segment in 1999, from 1998, is primarily the result of the substantially higher lumber prices which prevailed throughout 1999. In the North American market, the price of the benchmark product, 2"x4" SPF random length, increased from an average of $288 U.S. per thousand board feet in 1998 to an average of $343 U.S. in 1999. The weakness of the Canadian dollar against the U.S. dollar during the first half of the year also provided a positive impact on mill net returns. Overall, the Canadian dollar to U.S. dollar exchange rate was similar to 1998 averaging approximately $1.48 Cdn for $1 U.S. in both years.

The United States economy remained strong throughout 1999 with housing starts exceeding the record levels that were reached during 1998. This resulted in strong demand for lumber products in the year. Efforts to minimize penalties imposed by the quota restrictions under the Canada/United States Softwood Lumber Agreement (Softwood Lumber Agreement) resulted in downtime being taken by Canadian producers in the latter part of 1998. This downtime created a short-term decrease in the supply of lumber in the first quarter of 1999, driving lumber prices upward. In addition, fears of mortgage rate increases in the United States stimulated an increase in home building and renovations resulting in higher lumber prices being realized through the first three quarters of 1999. In the fall, price corrections were experienced due to extreme hot weather which closed down many construction sites; a mortgage rate increase in the United States with fears of additional rate increases; and additional supply in the marketplace from Canadian producers in lower cost regions who paid the penalty to ship over quota volumes to the United States. In addition, some lumber usually destined for Japan was redirected to the stronger United States lumber market, as Japan continued to recover from economic troubles encountered in 1998. Lumber prices improved again late in the year due to increased sales to home centres, favourable weather conditions extending the construction season and announced mill production curtailments to balance quota which caused dealers to increase inventory levels. Overall, Canfor's shipment volumes in 1999 from its own operations were approximately at the same levels as the preceding year.

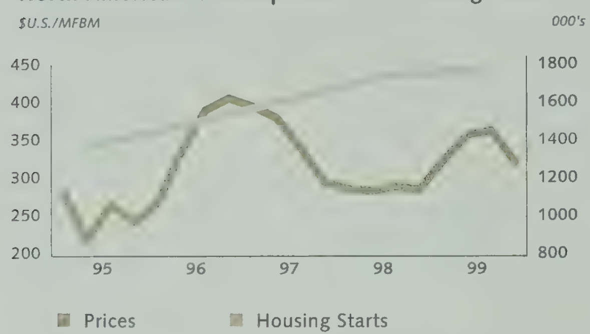
$U.S./$Cdn average annual exchange rate
$U.S./$Cdn



	1999(1)	1998	1997	1996	1995
Lumber shipments (millions of board feet)					
Canfor production	**1,434**	1,423	1,428	1,553	1,440
Other producers	**537**	398	365	287	403
Plywood, panelboard and fibreboard shipments (thousands of square feet 3/8")	**86**	55	153	176	177
Chip shipments (thousands of bone dry units)	**757**	812	829	899	836

(1) Includes Northwood's shipments from November 23, 1999.

North American lumber prices* and housing starts



* *Average 2"x 4" SPF random length price (F.O.B. Mill) - Source Random Lengths publication.*

Canfor's shipments of lumber purchased from or sold on an agency basis for other producers increased by approximately 35 per cent from 1998 with panel product shipments from other producers increasing by 44 per cent compared to 1998. However, the revenues generated from the agency relationships generally provide a marginal contribution to operating income. Consequently, the increase in these revenues did not have a significant impact on the operating income of the segment. The benefits of these agency relationships generally lies in the expanded range of products that Canfor is able to provide to key customers. In addition, revenue from plywood sales, resulting from the acquisition of the Northwood plywood mill, did not have a significant impact on the segment's operating income.

Reduced costs and improved operating efficiencies were the other major factors contributing to the $110.9 million increase in operating income of the Northern Wood Products segment in 1999. Canfor's average lumber manufacturing costs were reduced by seven per cent in 1999 as a result of: continued improvements in lumber recovery from logs processed; reduced production costs resulting from the restructuring program; general efforts to implement cost cutting initiatives; the closure of the high cost Netherlands Sawmill operation; and stumpage reductions which took effect in 1998. Factors contributing to improved lumber recoveries include new equipment put into production and improved log handling practices. The operations also realized the benefits of the 1998 restructuring of administrative functions.

The contribution to operating income from wood chips declined by six per cent in 1999 from 1998. The decrease was the result of a combination of lumber production curtailments and improved lumber recoveries to take advantage of higher returns from lumber, both of which reduced the volume of chips produced. The average prices received for wood chips were comparable to 1998 average prices.

Pulp and Specialty Kraft Paper

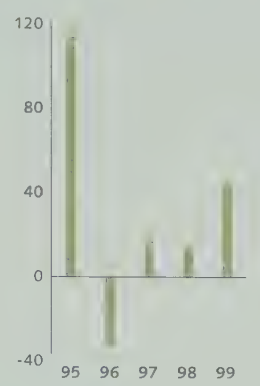
Canfor's Pulp and Specialty Kraft Paper segment is comprised of the Prince George Pulp and Paper Mill and the Intercontinental and Northwood pulp mills, located within three kilometers of each other in Prince George, British Columbia. The results of the Pulp and Specialty Kraft Paper segment for 1999 and 1998 were as follows:

(millions of dollars)	1999 (1)	1998
Sales	$ 430.4	$ 347.3
Operating income of the segment	$ 45.3	$ 14.9
EBITDA	$ 74.4	$ 40.2
EBITDA margin	17.3%	11.6%

(1) Includes Northwood's results from November 23, 1999.

Operating income (loss) – Pulp and Specialty Kraft Paper

$ millions



The $30.4 million increase in operating income of the Pulp and Specialty Kraft Paper segment is primarily a reflection of increasing prices for market pulp, lower manufacturing costs, and the effects of a weaker Canadian dollar during the first half of 1999. In addition, the inclusion of the results generated by the Northwood Pulp Mill from its acquisition on November 23, 1999 further contributed to the increase in the 1999 operating income.

	1999	1998	1997	1996	1995
Shipments (thousands of tonnes)					
Pulp	549	450	432	417	423
Specialty Kraft Paper	103	102	97	91	95

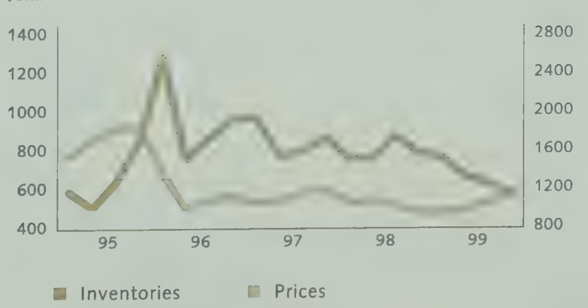
Adequate demand for pulp and specialty kraft paper resulted in no production curtailments in either 1999 and 1998 for Canfor's pulp and paper mills. Market prices for pulp declined slightly in the first quarter of 1999 but steadily improved thereafter. Pulp prices trended upwards as a result of declining producer inventory levels, slowing capacity growth, improving Asian markets and healthy demand in Europe and North America. From the second quarter onwards to the end of 1999, market prices increased from $460 to $600 U.S. per tonne in the European market. Although the average pulp price in 1999 was only approximately $4 U.S. per tonne higher than the 1998 average of $516 U.S. for pulp bound for the European market, significant price increases were realized in the last half of 1999. The fourth quarter average price was $587 U.S. per tonne compared to the 1998 fourth quarter average of $465 U.S. in the European market.

The increase in operating income was partially offset by increased wood chip costs, chemical costs and fuel costs. Reduced chip production at Canfor's sawmills, because of increased lumber recovery and production curtailments to balance quota at its sawmills, resulted in the pulp mills consuming more higher cost roundwood chips. Roundwood chips are produced by chipping whole logs, while residual chips are produced by chipping the portion of the log that does not produce lumber in the sawmilling process. Prince George Pulp and Paper Mill introduced an additional chemical to its pulping process in 1999 to increase wood yield. In addition, the pulp and paper mills experienced higher natural gas prices in 1999.

Training related to the new workplace flexibility provisions, negotiated into the new collective agreement in 1998, was substantially completed during the year. These provisions enabled the three mills to operate on

NBSK pulp prices/ chemical pulp producer inventories*

$U.S./tonnes *000's*



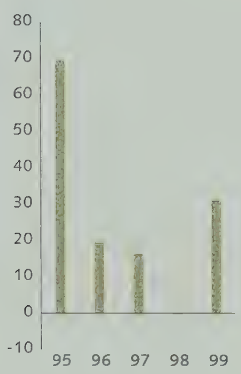
* *Average price paid by contract buyer, delivered to Northern Europe/Norscan Chemical Paper Grade Market Pulp Producer Inventories – Source CPPA*

a 365-day schedule and increased production by approximately two per cent from 1998 levels. In addition, these provisions contributed cost savings during the year with overall costs per tonne decreasing by 1.5 per cent compared to 1.3 per cent in 1998. Also, the signing bonuses paid under the collective agreements negotiated with hourly workers in 1998 were not incurred in 1999.

During 1999, Canfor tested and introduced the high performance unbleached product KODIAK KRAFT™ and increased production of its high strength bleached product POLAR KRAFT®. The production of these two specialty products creates a niche market for high strength and high performance kraft papers that provide higher margins. However, current production of the specialty kraft products resulted in production capacity being switched from other kraft products that previously provided higher sales volume but lower margins. This change in sales mix resulted in paper sales decreasing by approximately three per cent compared to 1999. Full production of the specialty kraft products is anticipated in 2000.

Operating income (loss) – Coast Wood Products

$ millions



Coast Wood Products

Canfor's Coast Wood Products segment is comprised of the Englewood and Mainland logging operations, Coast Fibre Supply and the Panel and Fibre operation. The results for the Coast Wood Products segment for 1999 and 1998 were as follows:

(millions of dollars)	1999	1998
External sales	**$ 211.0**	$ 152.8
Sales to other segments	**19.0**	25.3
Total sales	**$ 230.0**	$ 178.1
Operating income (loss) of the segment	**$ 30.9**	$ (0.5)
EBITDA	**$ 43.4**	$ 9.3
EBITDA margin	**18.9%**	5.2%

Operating income increased by $31.4 million from 1998 to 1999 as the average price Canfor received for its logs was approximately 21 per cent higher than in 1998. Improving economies in Japan and South East Asia resulted in growing demand for lumber from coastal producers, which in turn increased the demand for coastal logs. Canfor did not encounter logging curtailments in 1999, unlike 1998 when extended periods of high fire hazard during the summer resulted in periods of shutdown. As a result, with higher log prices, increasing demand for logs and more months available for production, logging activities increased by 37 per cent from 1998. New marketing strategies employed in 1999 also contributed to the improved results for the Coast Wood Products segment.

During 1999, Canfor's logging operations were able to offset production cost increases arising from alternative harvesting methods, such as helicopter logging, with premiums received on log prices and a stumpage allowance provided for by the stumpage appeal system. In addition, cost savings derived from efficiency initiatives from Canfor's 1998 restructuring program and new harvesting and handling methods, such as mechanical harvesting and use of a feller buncher during the year, contributed to reduced production costs.

Stumpage rates in British Columbia increased steadily throughout 1999. However, careful management of stumpage costs resulted in an approximate four per cent decrease per cubic metre of production in the stumpage paid by Canfor on the coast in 1999.

The results for Canfor's Panel and Fibre operation showed significant improvements from 1998. Increasing demand for hardboard and refined fibre products provided higher mill nets during 1999. Manufacturing costs in 1999 remained comparable to 1998 levels. This resulted in the operation contributing approximately 10 per cent of the segment's operating income.

	1999	1998	1997	1996	1995
Log shipments (thousands of cubic metres)	**1,570**	1,204	1,247	1,372	1,583
Hardboard shipments (thousands of square feet – 3/8")	**23**	23	24	24	26
Refined fibre and fibre mat (thousands of oven-dried metric units)	**34**	30	35	30	24

Chemicals

The Chemicals segment is comprised of an operation in Prince George, British Columbia, which, prior to the Northwood Acquisition, was equally owned by Canfor and Northwood. The chemical operation produces and supplies sodium chlorate to Canfor's pulp and kraft paper mills and other mills in the region for use in the pulp and kraft paper bleaching process. The plant and facilities, located adjacent to Canfor's Prince George Pulp and Paper and Intercontinental Pulp mills, also produce crude and depitched tall oils from soap skimmings recovered from the kraft pulping process.

The results of the Chemicals segment for 1999 and 1998 were as follows:

(millions of dollars)	**1999** (1)	1998
External sales	**$ 16.0**	$ 14.4
Sales to other segments	**9.2**	6.6
Total sales	**$ 25.2**	$ 21.0
Operating income of the segment	**$ 4.8**	$ 4.0
EBITDA	**$ 7.2**	$ 6.4
EBITDA margin	**28.6%**	30.5%

(1) Includes Northwood's portion of the results of the chemicals operation from November 23, 1999.

The improvement in the 1999 operating income can be primarily attributed to lower salt prices realized during the year, and a retroactive adjustment for 1998 salt prices, including applicable freight charges. Salt is one of the main elements used in the production of sodium chlorate. In addition, increased production of sodium chlorate and crude tall oil, in combination with production cost efficiencies implemented during the year, further contributed to the improved results.

	1999 (1)	1998	1997	1996	1995
Shipments (thousands of tonnes)					
Sodium Chlorate	**45**	37	34	30	36
Crude and depitched tall oils	**16**	13	13	15	16

(1) Includes Northwood's portion of the results of the chemicals operation from November 23, 1999.

Non-Segmented Expenses

Non-segmented expenses, which are comprised of corporate costs and research and development expenses, were reduced to $23.2 million in 1999 from $34.6 million in 1998. The decrease reflects the impact of the restructuring program implemented in 1998 that reduced management and corporate services staffing levels by 20 per cent and realigned the reporting structure of operations.

Canfor's equity in the income before tax of its affiliated companies, Lakeland Mills Ltd. and The Pas Lumber Company Ltd., which own sawmills in the Prince George region and supply wood ships to Canfor's pulp mills, amounted to $7.8 million in 1999 as compared to a loss before tax of $5.6 million in 1998. The primary reasons for the significant improvement are similar to those underlying the improvement in the results of Canfor's Northern Wood Products segment.

Net interest expense, as detailed in Note 11 to the Financial Statements, decreased by $4.8 million in 1999 over 1998. Interest expense on long-term debt, which is all denominated in U.S. dollars at fixed interest rates, decreased as a result of a U.S.$20 million debt payment made in 1999. In addition, $9.2 million interest earned on higher cash and temporary investments balances held throughout 1999 further reduced net interest expense.

In 1999, movements of the Canadian dollar relative to the U.S. dollar on the conversions of cash, accounts receivable and accounts payable denominated in U.S. dollars generated translation losses of approximately $9.1 million of the $9.6 million of Other Expenses. In 1998, the movements of the Canadian dollar generated translation gains on these conversions of approximately $8 million.

Discontinued Operations

As described in Note 2 of the Financial Statements, on December 31, 1999, Canfor and Weldwood of Canada Limited sold CanWel, a jointly owned wholesale building materials distribution company, for total net proceeds to Canfor of $6.9 million. The divestiture was a result of Canfor's review of non-core and/or underperforming assets. Management's decision to exit the building materials distribution market required the results of CanWel to be reported separately as a discontinued operation. Revenues and expenses for the year, as well as the loss on disposal of $3.4 million, have been aggregated and treated as "loss from discontinued operations" in the statement of earnings.

Year 2000

As at February 8, 2000, Canfor had not experienced any production losses or unusual cost resulting from Year 2000 issues. The total cost of achieving Year 2000 compliance was approximately $4.2 million, which was expensed as incurred.

Outlook

Canfor's management expects a continuation into the year 2000 of the favourable results achieved in 1999. Pulp and specialty kraft paper operations are expected to generate higher earnings as a result of recent price increases. Prices are expected to continue to improve as producer inventories are currently low, demand is generally strong and there are no substantial increases in pulp capacity coming on-stream in the next couple of years. In addition, pulp producers appear to be taking a more conservative approach to implementing price increases, thus easing the impact of the increasing prices on their customers. Lumber markets and prices are expected to remain at current levels with no significant changes anticipated through much of 2000, as Canadian lumber producers enter the final year of the Canada/United States Softwood Lumber Agreement.

Canfor expects to realize substantial synergies from the Northwood Acquisition. Canfor's management is currently estimating that these benefits should build to the level of approximately $150 million, before tax, annually by the end of 2001, with approximately one-half of this level expected to be reached by the end of 2000. In addition, Canfor expects to commence realizing the benefits of the strategic capital expenditures made in 1999 at three of Canfor's interior sawmills and its pulp and specialty kraft paper mill. These projects complement the continued cost reduction and profitability enhancement measures that Canfor has undertaken during the last two years. Canfor's objective is to position itself to cover its cost of capital, which it estimates to be approximately 11 per cent after tax, at product prices and exchange rates that reflect the bottom of the market cycle for its products. 2000 will be the third year of Canfor's five-year strategic plan focussed on achieving this objective.

The sensitivity of Canfor's results to changes in the prices for its major products and in the value of the Canadian dollar relative to the U.S. dollar, expressed in terms of after-tax earnings, is estimated to be approximately as follows:

(millions of dollars)	
Lumber – $10 U.S. change per Mfbm	$ 16.0
Pulp – $10 U.S. change per tonne	7.0
Specialty Kraft Paper – $10 U.S. change per tonne	0.7
Canadian dollar – $0.01 U.S. change per Canadian dollar	14.3

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's financial position as at the end of the years 1999 and 1998 and the cash flow related to the changes in financial position for those years.

(millions of dollars)	1999	1998 (1)
Net cash	$ 30.2	$ 86.1
Operating working capital	342.3	221.3
Short-term bank loans	(225.4)	–
Current portion of long-term debt	(29.7)	(31.9)
Current portion of deferred reforestation	(43.8)	(21.0)
Income taxes recoverable (payable)	(88.8)	6.5
Net working capital	(15.2)	261.0
Long-term investments	69.8	62.2
Property, plant, equipment and timber	1,384.8	610.4
Deferred charges	93.1	99.3
Net assets	$ 1,532.5	$ 1,032.9
Long-term debt	$ 442.2	$ 473.0
Deferred reforestation	38.8	34.0
Other long-term liabilities	10.7	3.6
Deferred income taxes	139.0	96.2
Common shareholders' equity	901.8	426.1
Total capitalization	$ 1,532.5	$ 1,032.9
Ratio of current assets to current liabilities	1:1	1.7:1
Ratio of net debt to common shareholders' equity	43:57	50:50
Cash generated from (used in)		
Operating activities from continuing operations (2)	$ 210.9	$ 90.0
Dividends	–	(3.8)
Financing activities	259.0	(12.2)
Investing activities (2)	(539.6)	(32.4)
Increase (decrease) in net cash from continuing operating activities	(69.7)	41.6
Increase (decrease) in net cash from discontinued operations	13.8	3.9
Increase (decrease) in net cash	$ (55.9)	$ 45.5

(1) The assets and liabilities of HSPP are excluded for comparability with 1999.

(2) Comparative figures have been restated to conform with the current year's presentation regarding discontinued operations.

Changes in Financial Position

Canfor's ratio of current assets to current liabilities decreased from 1.7:1 at the end of 1998 to 1:1 at the end of 1999 as the result of the debt incurred and assumed in the acquisition of Northwood. However, Canfor's ratio of net debt to equity improved during 1999, from a ratio of 50:50 at the end of 1998 to 43:57 at the end of 1999. The changes in the components of these ratios during 1999 are detailed in the Consolidated Cash Flow Statement of the Financial Statements. The more significant of those changes are discussed later in the document.

Operating Activities

Cash generated from operating activities during 1999 amounted to $210.9 million, which is $120.9 million higher than the $90.0 million generated in 1998. The increase is mainly attributed to an increase of $153.9 million in net income before discontinued operations which was partially offset by a $33.0 million decrease in non-cash working capital changes and $1.0 million from increased interest payments. Reasons for the increase in cash operating income and the decrease in interest payments in 1999 have been discussed previously under Operating Results.

Changes in non-cash working capital items, excluding working capital acquired in the Northwood Acquisition, generated $32.3 million in 1999, as compared to $65.3 million generated in 1998. In 1999, accounts receivable declined by $10.0 million primarily as the result of lower lumber prices and shipments in combination with pulp shipments that were deferred into 2000 as the result of rail and port problems in the fourth quarter and vessel delays late in the year. Income taxes payable increased by $63 million in the year since the loss incurred in 1998 eliminated the requirement to pay income tax installments in 1999. The cash contributed by these working capital movements was partially offset by inventories increasing by $28.6 million in 1999, primarily as a result of the lower lumber shipments in the fourth quarter and the shipping delays that affected pulp. In addition, a $13.7 million decrease in accounts payable and accrued liabilities further reduced the cash contributed from non-cash working capital changes.

Financing Activities

As disclosed in Notes 9 and 10 of the Financial Statements, the Company completed the issue of $155.0 million of 6.25 per cent Convertible Subordinated Debentures, maturing in November 2006, and raised net proceeds of $239.5 million on the issuance of Common Shares to fund the Northwood Acquisition in November 1999. In addition to the proceeds from the Convertible Subordinated Debentures and share issuance, Canfor drew down $150.0 million on a short-term acquisition loan facility made available from a syndicated bank group and subsequently repaid $100.0 million of the facility from cash generated by Canfor's operations. Scheduled debt retirements required $30.5 million of cash during 1999. As a consequence of the loss recorded in 1998, resulting from the write-off of HSPP, the payments of cash dividends on the Company's Common Shares were restricted by the provisions contained in the long-term borrowing agreements. Consequently, no cash dividends were paid in 1999 as compared to $3.8 million paid in 1998. With the improvement in the Company's 1999 consolidated earnings and the equity addition related to the Northwood Acquisition, the Company re-instated its quarterly cash dividends on its Common Shares for the first quarter of 2000.

Investing Activities

Investments in property, plant, equipment and timber totalled $119.9 million in 1999 as compared to $40.8 million in 1998. The increase in capital spending in 1999 reflects the program of strategic projects identified to improve productivity and operational efficiency in the sawmills, and to upgrade the kraft paper machine for increased speed and production of high performance paper at the Prince George Pulp and Paper Mill. In 1998, no major projects were undertaken, as Canfor was undergoing a period of review of its operations. As a result, the capital spending was focused on maintaining the existing assets in good condition, building the roads and bridges necessary for the logging programs and on small projects offering cost savings or increased return from the fibre processed.

In 1999, Canfor acquired all of the outstanding shares of Northwood Inc. for $635 million. The principal assets of Northwood include a two-line northern bleach softwood kraft pulp mill, four sawmills, a plywood mill, a wood-treating plant and two whole-log chipping facilities. All the operations are located in the Prince George region of British Columbia, including Northwood's long-term forest tenures. The aggregate

purchase price consisted of cash in the amount of $433.2 million, net of $46.8 million of cash included in Northwood's assets, and an aggregate of $155 million principle amount of Convertible Subordinated Debentures issued to The Mead Corporation and Nexfor Inc.

Canfor realized $6.9 million on the divestment of its 50 per cent interest in CanWel in 1999.

Financial Requirements and Liquidity

At the end of 1999, Canfor had cash and temporary investments net of unpresented cheques of $32.5 million, and unused bank operating lines of credit of $157.7 million, compared to $98.2 million and $175.5 million, respectively, at the end of 1998.

Provisions contained in the long-term borrowing agreements limit the amount of indebtedness that the Company can incur and the amount of dividends payable on its Common Shares. The amount of dividends the Company is permitted to pay under its long-term borrowing agreements is determined by reference to consolidated net earnings less certain restricted payments. As at December 31, 1999, the Company would be permitted under these agreements to incur $332.0 million additional long-term debt and pay up to $14.5 million, or $0.18 per share, in dividends on its Common Shares. The agreements do not restrict payment of dividends on preferred shares or dividends paid in Common Shares of the Company.

Canfor has planned capital expenditures of approximately $150 million for 2000. In addition to the normal maintenance of business capital spending, Canfor is planning to spend approximately $60 million on strategic projects to improve productivity and quality in its sawmills. Approximately $30 million is planned for upgrading the kraft paper machine for increased production and the production of high performance paper at the Prince George Pulp and Paper Mill and construction of a cogeneration plant at the Intercontinental Pulp Mill. These expenditures will be approved during the year provided the financial analyses show an acceptable return on capital.

In 2000, $29.6 million is required for installment payments on long-term debt.

Canfor intends to finance its planned capital expenditures and scheduled debt repayments from its existing cash and temporary investments and cash generated from its operations. Canfor has short-term floating rate bank loans of $225.4 million arising from the Northwood Acquisition. Canfor's intention is to reduce these loans, to the greatest extent possible, from cash generated from operations and to replace the remainder with a longer term, fixed rate loan.

Risks and Uncertainties

Virtually all companies in the forest industry in North America, including Canfor, face similar business risks and uncertainties. These risks and uncertainties fall into the general business areas of markets, currency, environmental issues, forest land base, government regulations and, for Canadian companies, trade barriers and aboriginal land claims.

Demand for forest products, both pulp and paper and wood products, are closely related to global business conditions and tend to be cyclical in nature, with product prices subject to volatile change. Canfor, like the majority of the Canadian forest products industry, competes in a global market and the majority of the products sold are denominated in U.S. dollars. Thus, foreign currency relationships pose a significant uncertainty. Shifts in these relationships can have a significant impact, positive or negative, on profits from operations. By maintaining a substantial proportion of its debt in U.S. dollars, Canfor has partially mitigated the impact of currency fluctuations in that currency. The sensitivity of Canfor's results to currency swings and prices for its principal products is discussed under Operating Results.

In British Columbia, the collective agreements with the unions representing employees in the northern sawmill operations, the plywood operation and the coastal logging operations expire in June 2000. Thus, there is the possibility of work stoppages in either or both operations. There is also the likelihood of

increased volatility in shipments and product prices if customers try to build inventories in anticipation of a disruption of their supply.

There is uncertainty over the potential impact of both existing and proposed environmental legislation. Of continuing concern is the British Columbia pulp and paper effluent regulation which requires mills to completely eliminate organochlorine discharge (measured as AOX) in mill effluent, by December 31, 2002. The British Columbia pulp and paper industry has indicated to the provincial government that going to zero AOX is not required from an environmental perspective, nor is it technically feasible or financially viable for mills to convert their processes. British Columbia is the only jurisdiction in the world with such a requirement. Canfor's management is cautiously optimistic that the Government of the Province of British Columbia will amend the requirement for pulp and paper mills to achieve zero AOX.

Of continuing concern are the federal government's plans to establish Canada Wide Standards (CWS) for respirable particulate levels in ambient air. The proposed interim standard for respirable particulate, which may be adopted by the Canadian Council of Ministers of the Environment in May 2000, is twice as stringent as the standard recently established by the United States Environmental Protection Agency. The proposed timeframe for the CWS is 2010.

The City of Prince George and Regional District of Fraser-Fort George have approved an Airshed Management Plan. This could result in requirements for industrial emission sources in Prince George to curtail operations during periods of poor air quality when the local Ministry of Environment issues air quality advisories. This could periodically interrupt the operation of Canfor's mills located within the Prince George airshed.

The Forest Act (British Columbia) (Forest Act) provides that, unless the consent of the Minister of Forests (the Minister) is obtained in connection with a change of control of a holder of a Crown timber tenures or a transfer of a tenure by a holder, the Minister may cancel all Crown timber tenures of such holder without compensation or may deem consent to have been given and impose a range of requirements and conditions.

Transfers of tenures to affiliates of holders do not require ministerial consent. In considering whether to grant his consent, the Minister reviews the transaction to consider whether or not the proposed change would be in the public interests. Various other factors that may be considered in determining whether to approve a change in control of a tenure holder or a transfer of a tenure include: the degree of regional corporate concentration of harvesting rights; the effect on the competitive market for wood fibre; and the effect on the level of structural diversity in the provincial or regional forest industry.

On November 10, 1999, the Minister approved-in-principle to the acquisition by Canfor of all the shares of Northwood Inc. As a condition of approving any change of control, the Minister is required by the Forest Act to automatically impose a five per cent reduction in the allowable annual cut (AAC) of Northwood's Crown timber tenures. The Forest Act also provides an opportunity for Canfor to apply to the Minister to have the AAC under Northwood's Crown timber tenures increased by the mandatory five per cent reduction upon acceptance by the Minister of a satisfactory job creation plan. Canfor is currently finalizing its application and management believes that the plan provides a solid basis for re-instatement.

WFFPS Woodworkers for Fair Forest Policy Society and an individual have filed a petition against the Minister seeking judicial review of various issues in connection with Canfor's TFL 37 (Englewood) and, among other things, the quashing of TFL 37 (Englewood). Canfor has been added as a party to the proceedings, which are scheduled to be heard in early March 2000. Canfor's management believes that the claims of the petitioners are without merit.

Aboriginal groups have claimed aboriginal title and rights over substantial portions of British Columbia, including areas where Canfor's forest tenures are situated. Provincial government policy requires that management and operating plans try to avoid infringing upon aboriginal rights. In some instances, aboriginal groups have sought to restrict the Crown from issuing or renewing forest tenures, without the consent

of the group, on lands claimed by the group. One such First Nation, the Lheidl T'enneh Band located near Prince George, British Columbia, has reached the fourth stage of the six stage treaty negotiation process facilitated by the British Columbia Treaty Commission. The first six chapters of the draft agreement in principle have been made available to the public. The impact, if any, on Canfor and its tenures resulting from the treaty negotiation process is unknown at this time.

In December 1997, the Supreme Court of Canada issued the Delgamuukw decision in which it affirmed that aboriginal groups have a spectrum of aboriginal rights in lands used or occupied by their ancestors. Those rights may vary from rights of limited use up to aboriginal title. The decision has added to uncertainty regarding property rights in Canada (including forest tenure and other resource rights), particularly in much of British Columbia and other areas where treaties were not concluded with aboriginal groups. The Court stated these principles in broad terms, and did not apply them to any particular lands. The Court confirmed that aboriginal rights and title are not absolute and may be infringed by the Crown, subject to meeting a justification test. Infringement must be in furtherance of a legislative objective that is compelling and substantial, including forestry, and must be consistent with the special fiduciary relationship between the Crown and the aboriginal peoples. The application of the principles enunciated in the decision will not be possible until subsequent decisions provide clarification, and the application of these principles to any particular land will not be possible until the exact nature of historical aboriginal use and occupancy and the resulting rights in the particular property has been determined.

In the Delgamuukw decision, the Court expressly encouraged the federal and provincial governments, and aboriginal people, to negotiate in good faith to resolve aboriginal claims and achieve "reconciliation". The federal and provincial governments are currently pursuing negotiation with numerous aboriginal groups towards comprehensive land claim settlements and treaties. Each land claim agreement and treaty may include unique provisions for dealing with forest tenures. It is the policy of the Government of the Province of British Columbia to respect the terms of all legal interests in Crown land including leases and tenures, but it is not yet possible to predict with certainty the provision that will apply in future land claim agreements and treaties.

In February 1996, an agreement (Softwood Lumber Agreement) was reached between Canada and the United States regarding the trade dispute over the export of Canadian softwood lumber to the United States. This agreement, which took effect during 1996 and expiring in the year 2001, places a quota on Canadian shipments of softwood lumber to the United States. Under this agreement, the provinces of British Columbia, Alberta, Ontario and Quebec are able to export annually a total of 14.7 billion board feet of softwood lumber to the United States with no export fee imposed. Lumber exports in excess of this level, or a quarterly maximum of 28.75 per cent of the annual quota, would be subject to a two-tiered fee. This quota has enabled substitute products and lumber from Europe and Canadian provinces that were exempted from the quota to gain a larger portion of the market traditionally served by four major producing Canadian provinces, in particular softwood lumber from British Columbia and Alberta. This raises uncertainty as to whether or not further market share will be lost.

In August 1999 the Government of the Province of British Columbia announced that the Canadian government and the United States Trade Representative had reached a settlement of the dispute previously raised by the United States with the arbitration panel established under the Softwood Lumber Agreement over the 16 per cent stumpage fee reduction instituted by the British Columbia government on June 1, 1998. Under the settlement, a portion of the volume of lumber shipments by British Columbia producers subject to the lower fee (currently $52.93 U.S. per thousand board feet) under the Softwood Lumber

Agreement will be subject to the higher fee of $105.86 U.S. per thousand board feet. A new fee rate of $146.25 U.S. per thousand board feet will apply to lumber shipment volumes in excess of a specified limit. Canfor's management believes that the terms of the settlement will not have a material effect on its business.

Canfor and other producers face the constant challenge of keeping abreast of customer demand for products that come from well-managed forests. Environmental groups have been lobbying customers to purchase products that have been certified by an independent third party as having been derived from well-managed forests. Increasing pressure from environmental groups has resulted in large retailers of wood products requesting that producers provide them with verification that the products are not from endangered forests and are from well-managed forests. The Forest Stewardship Council (FSC), an international non-profit organization, has introduced a set of international principles and criteria for good forest management and is proceeding to develop regional standards to provide for local interpretation of the principles and criteria. Certification to the FSC standard attempts to provide a credible guarantee to the consumer that the product comes from well-managed forests. The FSC certification system is supported by a number of major environmental groups who are lobbying wood products retailers to recognize the standard. Canfor is proceeding to put FSC certification in place, initially at the company's four area-based tenures in British Columbia and Alberta. In Canfor's case, this certification will be in addition to the ISO 14001 certification that Canfor has already attained for its forest operations. In addition, Canfor has committed to achieving certification under the Canadian Standards Association (CSA) standard for sustainable forest management. Canfor's management has not determined what impact the FSC certification will have on its normal course of operations, largely because FSC regional standards have not yet been completed for British Columbia and Alberta.

The future effects of the various uncertainties and potential risks described in the foregoing cannot be quantified or predicted. However, Canfor does not foresee unmanageable adverse effects on its operations, and believes that it is well structured to deal with such matters as may arise.

The information and representations in this Annual Report were prepared by Canfor's management. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in Canada and, where necessary, reflect management's best estimates and judgements at this time. It is reasonably possible that circumstances may arise which cause actual results to differ. Management does not believe it is likely that any differences will be material. The financial information presented throughout this report is consistent with that contained in the consolidated financial statements.

Canfor maintains systems of internal accounting controls, policies and procedures to provide reasonable assurances as to the reliability of the financial records and the safeguarding of its assets. The Internal Audit Department performs independent reviews of the accounting records and related procedures. The Internal Audit Department reports its findings and recommendations both to management and the Audit Committee.

The Audit Committee of the Board of Directors is comprised of directors who are not employees of the company. The committee meets periodically throughout the year to review their respective responsibilities and to discuss the audit plans, the results of reviews of internal accounting controls, policies and procedures, and financial reporting matters. The external and internal auditors meet separately with the Audit Committee.

The consolidated financial statements have been reviewed by the Audit Committee, which recommended their approval by the Board of Directors.

AUDITORS' REPORT

To the Shareholders of Canfor Corporation

We have audited the consolidated balance sheets of Canfor Corporation as at December 31, 1999 and December 31, 1998 and the consolidated statements of income and earnings reinvested in the business and cash flow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1999 and December 31, 1998 and the results of its operations and the changes in its financial position for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

PricewaterhouseCoopers LLP

February 8, 2000
Chartered Accountants
Vancouver, B.C.

CONSOLIDATED STATEMENT OF INCOME AND EARNINGS REINVESTED IN THE BUSINESS

Year ended December 31 (thousands of dollars)	1999	1998 (Note 20)
Net sales	**$ 1,750,268**	$ 1,418,047
Costs and expenses		
Manufacturing and product costs	**1,414,334**	1,260,113
Depreciation, depletion and amortization	**70,166**	65,241
Selling and administration	**47,899**	59,635
	1,532,399	1,384,989
Operating income	**217,869**	33,058
Equity income (loss) of affiliated companies (Note 5)	**7,761**	(5,599)
Interest expense (Note 11)	**(33,137)**	(37,946)
Other income (expenses)	**(9,586)**	8,080
Unusual items (Note 17)	**–**	(37,974)
Income (loss) from continuing operations before income taxes	**182,907**	(40,381)
Income tax (expense) recovery (Note 14)		
Current	**(60,924)**	2,945
Deferred	**(11,642)**	7,738
Affiliated companies	**(3,430)**	1,708
	(75,996)	12,391
Net income (loss) from continuing operations before losses related to HSPP(1)	**106,911**	(27,990)
Net loss from discontinued operations (Note 2)	**(4,361)**	(3,857)
Loss from and write-off of investment in HSPP, net of taxes (Note 19)	**–**	(171,884)
	(4,361)	(175,741)
Net income (loss)	**$ 102,550**	$ (203,731)
Net income (loss) per common share (dollars)		
Basic, before discontinued operations and losses related to HSPP	**$ 1.75**	$ (0.48)
Basic	**$ 1.68**	$ (3.49)
Fully diluted	**$ 1.61**	$ (3.49)
Earnings reinvested in the business at beginning of year	**$ 8,383**	$ 215,907
Net income (loss) for the year	**102,550**	(203,731)
Common share dividends	**–**	(3,793)
Interest on equity component of convertible subordinated debentures, net of income taxes (Note 9)	**(472)**	–
Earnings reinvested in the business at end of year	**$ 110,461**	$ 8,383

(1) HSPP refers to Howe Sound Pulp and Paper Limited.

CONSOLIDATED CASH FLOW STATEMENT

Year ended December 31 (thousands of dollars)	1999	1998 (Note 20)
Cash generated from (used in)		
Operating activities		
Net income (loss) from continuing operations before losses related to HSPP	**$ 106,911**	$ (27,990)
Adjustments for:		
Depreciation, depletion and amortization	**70,166**	65,241
Fixed assets written-off	**–**	4,479
Deferred income taxes	**11,642**	(7,738)
Other	**(10,111)**	(9,279)
Non-cash working capital changes (see below)	**32,327**	65,280
	210,935	89,993
Financing activities		
Proceeds from issue of common shares (Note 10)	**239,490**	–
Proceeds from acquisition bank loan	**150,000**	–
Repayment of acquisition bank loan	**(100,000)**	–
Repayment of long-term debt and capital leases	**(30,536)**	(12,182)
Dividends paid to common shareholders	**–**	(3,793)
	258,954	(15,975)
Investing activities		
Purchase of investment (Note 2)	**(433,223)**	–
Purchase of property, plant, equipment and timber	**(119,856)**	(40,833)
Proceeds from sale of property, plant, equipment, investments and other	**13,527**	8,472
	(539,552)	(32,361)
Increase (decrease) in net cash		
from continuing operations	**(69,663)**	41,657
from discontinued operations (Note 2)	**13,787**	3,885
Net cash at beginning of year	**86,067**	40,525
Net cash at end of year	**$ 30,191**	$ 86,067
Net cash comprises		
Cash	**$ 18,313**	$ 40,309
Temporary investments	**56,613**	85,967
Unpresented cheques	**(42,401)**	(28,040)
Operating bank loans	**(2,334)**	(12,169)
	$ 30,191	$ 86,067
Non-cash working capital changes		
Accounts receivable	**$ 10,073**	$ (16,813)
Income taxes	**63,104**	(4,368)
Inventories	**(28,580)**	20,951
Prepaid expenses	**1,411**	2,159
Accounts payable and accrued liabilities	**(13,681)**	63,351
	$ 32,327	$ 65,280

Interest paid by continuing operations in 1999 was $38,817 (1998 – $37,946) and income taxes recovered was $6,844 (1998 – income taxes paid $1,149).

CONSOLIDATED BALANCE SHEET

As at December 31 (thousands of dollars)	1999	1998
Assets		
Current assets		
Cash	$ 18,313	$ 40,309
Temporary investments	56,613	85,967
Accounts receivable		
Trade	213,771	162,517
Other	48,689	25,541
Income taxes recoverable (Note 14)	–	6,462
Inventories (Note 4)	450,816	297,710
Prepaid expenses	11,691	4,513
Total current assets	799,893	623,019
Long-term investments (Note 5)	69,815	62,242
Property, plant, equipment and timber (Note 6)	1,384,767	610,371
Deferred charges (Note 7)	93,171	99,275
	$ 2,347,646	$ 1,394,907

Approved by the Board

R. Laird Cliff

Director, R.L. Cliff

David Emerson

Director, D.L. Emerson

CONSOLIDATED BALANCE SHEET

As at December 31 (thousands of dollars)	1999	1998
Liabilities		
Current liabilities		
Unpresented cheques	$ 42,401	$ 28,040
Operating bank loans	2,334	12,169
Term bank loan (Note 2)	175,438	–
Acquisition bank loan (Note 2)	50,000	–
Accounts payable and accrued liabilities	382,613	268,903
Current portion of long-term debt (Note 8.1)	29,679	31,879
Current portion of deferred reforestation	43,838	21,015
Income taxes payable	88,828	–
Total current liabilities	815,131	362,006
Long-term liabilities		
Long-term debt (Note 8.1)	417,536	473,015
Convertible subordinated debentures-liability component (Note 9)	24,605	–
Deferred reforestation	38,802	34,016
Other liabilities	10,742	3,577
Total long-term liabilities	491,685	510,608
Deferred income taxes	139,058	96,245
Shareholders' Equity		
Share capital (Note 10)	657,617	413,842
Convertible subordinated debentures – equity component (Note 9)	130,395	–
Earnings reinvested in the business	110,461	8,383
Foreign exchange translation adjustment	3,299	3,823
	901,772	426,048
Commitments and contingencies (Note 13)		
Subsequent event (Note 21)		
	$ 2,347,646	$ 1,394,907

December 31, 1999

Basis of presentation of financial statements

These financial statements include the accounts of Canfor Corporation (the Company), its subsidiary companies, interests in joint ventures and equity investments, hereinafter referred to as "Canfor". With the exception of Howe Sound Pulp and Paper Limited (Note 19), Canfor's interests in joint ventures are accounted for by including its prorated share of the ventures' assets, liabilities, revenues and expenses on a line by line basis, and equity investments are accounted for by recording the original investment at cost and subsequently adjusting for its prorated share of post acquisition earnings.

Use of estimates

The financial statements reflect management's best estimates and judgments at the time and it is reasonably possible that circumstances may arise which cause actual results to differ from management's estimates. Management does not believe it is likely that such differences will materially affect Canfor's financial position, results of operations or cash flows.

Valuation of inventories

Inventories of wood products, pulp, kraft paper and building materials are valued at the lower of average cost and net realizable value. Logs and chips are valued at average cost or the greater of net realizable value and replacement cost if lower than average cost. Processing materials and supplies are valued at the lower of average cost and replacement cost.

Temporary investments

The temporary investments comprise Bankers Acceptances, commercial paper and other short-term instruments and are valued at cost, which approximates fair value.

Property, plant, equipment and timber

Canfor capitalizes the costs of major replacements, extensions and improvements to plant and equipment, together with related interest expense incurred during the construction period on major projects.

The rates of depreciation are based upon depreciating the assets over the following estimated productive lives:

Buildings	10 to 40 years
Mobile equipment	3 to 20 years
Pulp and kraft paper machinery and equipment	15 to 20 years
Sawmill machinery and equipment	4 to 15 years
Logging machinery and equipment	3 to 12 years
Logging roads and bridges	10 to 20 years
Other machinery and equipment	5 to 20 years
Leasehold improvements	5 years

Depreciation of logging and manufacturing assets is calculated on a unit of production basis.

Depreciation of plant and equipment not employed in logging and manufacturing is calculated on a straight-line basis.

Amortization of logging roads and depletion of timber is calculated on a basis related to the volume of timber harvested.

Deferred charges

Deferred financial costs are amortized over the lives of the related debt. Software development costs, relating to major systems, are deferred and amortized over periods not longer than 10 years.

Deferred reforestation

Canfor accrues the cost of the reforestation required under its timber harvest agreements at the time the timber is harvested.

Pension costs

Canfor has various contributory and non-contributory pension plans which cover most salaried employees and certain hourly employees not covered by forest industry-union pension plans.

Earnings are charged with the cost of benefits earned by employees as services are rendered. Adjustments arising from pension plan amendments, experience gains and losses, and changes in assumptions are amortized to earnings over the estimated average remaining service lives of plan members.

The difference between amounts included in earnings and Canfor's contributions to the pension plans are included in deferred charges or accrued liabilities on the balance sheet.

For hourly employees covered by forest industry-union defined contribution pension plans, earnings are charged with Canfor's contributions required under the collective agreements with the unions for the employee's services rendered.

Foreign currency

The majority of Canfor's sales and long-term debt are denominated in foreign currencies. Foreign currencies are translated into Canadian dollars using the temporal method as follows:

- Monetary assets and liabilities at year-end or applicable hedged exchange rates; non-monetary assets and liabilities at historical rates; revenues and expenses at exchange rates prevailing at the time the transaction occurs.
- Exchange gains or losses are reflected in income immediately with the exception of unrealized translation gains or losses related to long-term monetary liabilities hedged by future revenue streams, which are deferred until realized.

Canfor's foreign operations are considered to be self-sustaining and the assets and liabilities are translated using the current rate method. The translation gain or loss is included as a component of shareholders' equity.

Post employment benefits

Canfor provides certain health care benefits to eligible retired employees. The costs of providing these benefits are expensed by Canfor as paid.

Income taxes

Canfor accounts for income taxes on the tax allocation method. Under this method, timing differences between reported and taxable income result in provisions for taxes not currently payable. Such timing differences arise principally as a result of claiming depreciation, depletion, amortization, deferred charges and pension expense for tax purposes at amounts differing from those charged to income.

Financial instruments

Where applicable, comments with respect to financial instruments appear in the relevant note. The fair values of financial instruments are only indicated where they differ materially from their carrying value.

December 31, 1999

1. Accounting policies

The principal accounting policies followed by Canfor are summarized under the caption Summary of Principal Accounting Policies.

2. Acquisition and divestment

On August 26, 1999, the Company entered into an agreement to acquire all the outstanding shares of Northwood Inc. (Northwood) for $635 million. The agreement required cash generated after July 3, 1999, to be retained by Northwood and not distributed to the vendors. The principal assets of Northwood are located in the Prince George area of British Columbia and include a pulp mill, four sawmills, a plywood mill, long-term forest tenures and the remaining 50 per cent interest in B.C. Chemicals Company and B.C. Chemicals Ltd. not already owned. The consolidated financial statements include the operations of Northwood since the closing of the acquisition on November 23, 1999. The acquisition has been accounted for using the purchase method. Planned acquisition integration costs estimated at $47.0 million to cover employee severance, computer systems integration, asset impairments and other integration activities were accrued as part of the purchase price. The amounts assigned to the net assets and liabilities acquired are based on their estimated fair values as at November 23, 1999 as follows:

(thousands of dollars)	
Net assets acquired	
Cash	$ 46,777
Other current assets, net	58,325
Property, plant and equipment	469,389
Timber	259,352
Other assets	22,673
	856,516
Less	
Long-term debt	176,337
Other liabilities	13,258
Deferred income taxes	31,921
	221,516
	$ 635,000

The acquisition was financed as follows:

(thousands of dollars)	
Issuance of share capital	$ 239,490
Convertible subordinated debentures (Note 9)	155,000
Acquisition bank loan	150,000
Cash	90,510
	$ 635,000

Subsequent to the acquisition the long-term debt assumed was replaced by a short-term bank loan.

On December 31, 1999, Canfor and Weldwood of Canada Limited sold Canwel Distribution Ltd. (CanWel), their jointly owned wholesale building materials distribution company for a total net proceeds to Canfor of $6.9 million which resulted in a net loss of $3.4 million. Canfor has accounted for the sale of its joint venture interest as a discontinued operation. Revenues and expenses attributed to CanWel, as well as the loss on disposal have been aggregated and treated as "loss from discontinued operations" in

the Statement of Income and Earnings Reinvested in the Business. Comparative income statement figures for 1998 have been restated accordingly.

Canfor's results of discontinued operations are as follows:

(thousands of dollars)	1999	1998
Net sales	$ 228,170	$ 214,226
Costs and expenses		
Product cost	206,517	192,788
Depreciation, depletion and amortization	333	456
Selling and administration	20,846	21,002
	227,696	214,246
Operating income (loss) discontinued operations	474	(20)
Interest expense	(1,326)	(1,168)
Unusual items	–	(2,600)
Income tax expenses	(73)	(69)
Loss before loss on disposal of investment	(925)	(3,857)
Loss on disposal of investment	(3,436)	–
Net loss from discontinued operations	$ (4,361)	$ (3,857)

The cash provided by (used for) discontinued operations is as follows:

(thousands of dollars)	1999	1998
Net loss from discontinued operations	$ (4,361)	$ (3,857)
Items not involving cash		
Depreciation, depletion and amortization	333	456
Other	3,775	616
Net change in non-cash working capital	(4,765)	7,260
Operating activities	(5,018)	4,475
Investing activities		
Disposition of bank indebtedness	19,716	–
Other	(911)	(590)
Increase (decrease) in net cash of discontinued operations	$ 13,787	$ 3,885

The balance sheet includes the following amounts applicable to discontinued operations:

(thousands of dollars)	1999	1998
Current assets	$ –	$ 35,615
Property, plant, equipment and timber	–	4,362
Current liabilities	–	(26,619)
Long-term liabilities	–	(2,119)
Net investment in CanWel	$ –	$ 11,239

3. Interest rate swaps

Canfor has outstanding interest rate swaps, which were acquired with Northwood, on a total of $125 U.S. million of long-term debt. These swaps convert fixed rate interest into floating rate interest until June 30, 2005. At December 31, 1999 these swaps result in an unrealized settlement gain of $3.8 million which was recognized as an asset at the time of purchase.

4. Inventories

(thousands of dollars)	1999	1998
Wood products, pulp and kraft paper	$ 227,628	$ 155,233
Logs and chips	161,042	90,956
Processing materials and supplies	62,146	34,205
Building materials	–	17,316
	$ 450,816	$ 297,710

5. Long-term investments

(thousands of dollars)	1999	1998
Equity investments*		
Cost of common shares	$ 45,135	$ 45,135
Accumulated equity income	1,277	(3,054)
Preferred shares		
Seaboard Shipping Company Limited**	11,667	10,889
Other deposits, loans and investments	11,736	9,272
	$ 69,815	$ 62,242

* Canfor owns a one-third interest in Lakeland Mills Ltd. and The Pas Lumber Company Ltd., which own sawmills in the Prince George, British Columbia region (Note 13). The combined assets and liabilities of the two mills are $128.2 million (1998 – $121.8 million) and $74.4 million (1998 – $82.1 million), respectively.

** During the year, Seaboard Shipping Company Limited issued further preferred shares in the amount of $2,751,000, (1998 – $3,554,000), and subsequently redeemed preferred shares in the amount of $1,973,000 (1998 – nil) .

6. Property, plant, equipment and timber

December 31, 1999 (thousands of dollars)	Cost	Accumulated Depreciation and Depletion	Net Book Value
Land	$ 13,044	$ –	$ 13,044
Pulp and kraft paper mills	1,032,486	370,387	662,099
Wood products mills	480,732	263,933	216,799
Logging buildings and equipment	69,340	51,025	18,315
Logging roads and bridges	197,755	139,256	58,499
Other equipment and facilities	99,137	43,241	55,896
Timber	388,585	28,470	360,115
	$ 2,281,079	$ 896,312	$ 1,384,767

Included in the above are assets under construction in the amount of $25,137,000 (1998- $4,698,000) which are not being depreciated.

December 31, 1998 (thousands of dollars)	Cost	Accumulated Depreciation and Depletion	Net Book Value
Land	$ 9,231	$ –	$ 9,231
Pulp and kraft paper mills	643,251	342,798	300,453
Wood products mills	371,912	287,829	84,083
Logging buildings and equipment	70,502	48,639	21,863
Logging roads and bridges	179,736	128,196	51,540
Other equipment and facilities	84,564	43,887	40,677
Timber	129,194	26,670	102,524
	$ 1,488,390	$ 878,019	$ 610,371

7. Deferred charges

(thousands of dollars)	1999	1998
Unrealized foreign exchange loss on long-term debt	$ 30,099	$ 61,679
Software development costs	8,202	6,363
Prepaid post retirement benefits	54,636	30,685
Debt issue and other expenses	234	548
	$ 93,171	$ 99,275

Deferred charges expensed during the year amounted to $1,680,000 (1998 – $1,175,000).

8. Long-term debt

8.1 Summary of long-term debt

(thousands of dollars)	1999	1998
Privately placed senior notes		
– $80,000 U.S. (1998 – $100,000 U.S.) interest at 7.75%, repayable in five equal annual installments commencing June 1, 1999	$ 115,464	$ 153,050
– $50,000 U.S. interest at 7.73%, repayable in four equal annual installments commencing June 28, 2001	72,165	76,525
– $125,000 U.S. interest at 8.24%, repayable in four equal annual installments commencing September 1, 2004	180,412	191,313
– $50,000 U.S. interest at 6.82%, repayable in five equal semi-annual installments commencing April 1, 2005	72,165	76,525
Other loans	4,250	4,500
Capital leases (Note 13)	2,759	2,981
	447,215	504,894
Less: Current portion of long-term debt		
Notes and agreements payable	29,116	30,860
Amounts due on capital leases (Note 13)	563	1,019
	29,679	31,879
	$ 417,536	$ 473,015

The agreements relative to the privately placed senior notes contain provisions limiting the amount of indebtedness which the Company and its designated subsidiaries can incur and the amount of dividends payable on its common shares. Under these agreements, the Company and its designated subsidiaries can presently incur $332.0 million additional long-term debt (at December 31, 1998 no additional long-term debt could be incurred).

8.2 Fair value

The fair value of all long-term debt at December 31, 1999 was $436,215,000 (1998 – $501,613,000) and is based on rates currently available to Canfor for long-term debt with similar terms and remaining maturities.

8.3 Debt repayments

Repayments on long-term debt and capital leases for the next five years are as follows:

(thousands of dollars)	
2000	$ 29,679
2001	48,433
2002	48,584
2003	47,879
2004	64,049

8.4 Bank loans

The Company has $125.3 million of unused bank operating lines of credit, after deducting unpresented cheques, as of December 31, 1999 (1998 – $147.5 million).

9. Convertible subordinated debentures

On November 23, 1999, the Company issued $155.0 million of unsecured convertible subordinated debentures as part of the purchase price payable by the Company for all the outstanding shares of Northwood Inc. (Note 2). The debentures bear interest at 6.25 per cent per annum and mature on November 23, 2006. The debentures are convertible, at the holder's option, into common shares of the Company at a conversion price of $13.20 per share. The holders must hold the debentures for 180 days after issue. Upon a change of control of the Company each holder may require the Company to purchase the holder's debentures at 100 per cent of principal plus accrued and unpaid interest. After three years, the debentures are redeemable at the option of the Company at 100 per cent of principal plus accrued and unpaid interest provided that from the third year to the fifth year the debentures may only be redeemed if the 20 day weighted average closing price of the Company's common shares exceeds 120 per cent of the conversion price. The Company has the option to satisfy its obligation to pay any portion of the applicable principal and interest, or redemption or purchase price by delivery of shares to the trustee and subsequent sale of such shares and delivery to the holders of cash equal to the principal and interest, redemption or purchase price of the debentures.

The convertible subordinated debentures are being accounted for in accordance with their substance and are presented in the financial statements in their component parts, measured at their respective fair values at the time of issue. The liability component represents the net present value of the outstanding interest payments to November 23, 2002, the first date the Company has the option to retire the debentures through the issue of shares. The difference between the debt component and the face value of the debenture is classified as equity. The equity component of the debenture is increased over the term to the full face value by charges to retained earnings and a corresponding reduction in interest expenses.

In computing basic and fully diluted earnings per share, the charges to retained earnings are deducted from net earnings to arrive at net earnings attributable to common shareholders.

The fair value of the convertible subordinated debentures is estimated to be $209.9 million based upon rates currently available for debt with similar terms and the prevailing market value of the Company's common shares.

10. Share capital

Authorized

10,000,000 preferred shares, with a par value of $25 each

500,000,000 common shares without par value

(thousands of dollars)	1999	1998
Issued 81,078,447 common shares (1998 – 58,351,174)	**$ 657,617**	$ 413,842

During the year, the Company issued 22,727,273 common shares for net proceeds of $239.5 million for use in the acquisition of Northwood Inc. (Note 2).

Stock Options

The Company has a share option agreement and a stock option performance plan for selected officers and senior managers. The share option plans provide for the issuance of up to a maximum of 5,300,000 common shares (1998 – 3,000,0000) at an exercise price equal to the market price of the Company's common shares on the date of grant. The option period for the share option agreement is four years and five years for the stock option performance plan. However, under both plans there are various criteria which limit the amount of options exercisable during each option year within the option period. A summary of the status of the two plans as of December 31, 1999 and 1998, and changes during the years ending on those dates is presented below:

	1999		1998	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at the beginning of the year	**2,535,000**	**$ 9.23**	Nil	
Granted	**120,000**	**$ 7.30**	2,535,000	$ 9.23
Exercised	**Nil**		Nil	
Outstanding at the end of the year	**2,655,000**	**$ 9.14**	2,535,000	$ 9.23

The weighted average remaining contractual life of the options outstanding at December 31, 1999 was 3.5 years (1998 – 4.4 years) and the number of options exercisable as at December 31, 1999 was 658,750 (1998 – nil).

Employee Share Purchase Plan

During the year, Canfor established a share purchase plan available to all employees. Purchases of common shares under this plan occur on the open market. Under the plan the employees can purchase up to 10 per cent of their base salary or wage. Canfor will match 30 per cent of the first 5 per cent of the amount contributed by the employee and pay the share purchase plan brokerage fees.

11. Interest expense

(thousands of dollars)	Long-term	Short-term	Total
December 31, 1999			
Total interest cost	**$ 37,572**	**$ 5,069**	**$ 42,641**
Less: Interest income	**4**	**9,203**	**9,207**
Interest capitalized	**–**	**297**	**297**
	$ 37,568	**$ (4,431)**	**$ 33,137**
December 31, 1998 (Note 20)			
Total interest cost	$ 38,838	$ 3,044	$ 41,882
Less: Interest income	16	3,920	3,936
Interest capitalized	–	–	–
	$ 38,822	$ (876)	$ 37,946

12. Pension plans

Canfor's pension plans have a present value of accumulated pension benefits based on projected service and compensation levels of $272,687,000 (1998 – $201,124,000). Plan net assets of $376,200,000 (1998 – $277,552,000) at market value are available for payment of these benefits.

Canfor has other pension agreements, which are unfunded, under which certain present and former executive officers and directors of the Company are entitled to benefits. The present value of accumulated pension benefits based on projected service and compensation levels is $4,261,000 (1998 – $3,245,000).

Pension expense in 1999 was $1,381,000 (1998 – $2,499,000) after allowing for amortization of adjustments.

13. Commitments and contingencies

The future minimum lease payments under capital and operating leases are as follows:

(thousands of dollars)	Capital Leases	Operating Leases
2000	$ 719	$ 17,435
2001	695	12,538
2002	807	8,496
2003	320	4,683
2004	237	1,957
Thereafter	427	7,515
Total minimum lease payments	3,205	$ 52,624
Less amount representing imputed interest at rates ranging from 5.75% to 9.0%	446	
Present value of obligations under capital leases	2,759	
Due within one year	563	
Long-term obligations under capital leases	$ 2,196	

Canfor's investment in Lakeland Mills Ltd. and The Pas Lumber Company Ltd. is pledged as security for the bank debt of those mills.

At December 31, 1999, Canfor had outstanding forward exchange contracts to sell $25,000,000 U.S. dollars at exchange rates which vary from $1.5069 Cdn to $1.51185 Cdn equivalent to $1.00 U.S. These

contracts were acquired with Northwood and mature in the first three months of 2000. The contracts were designated as a hedge of future U.S. dollar revenues. The unrecognized gain of $0.7 million as at December 31, 1999 has been deferred and will offset foreign exchange on U.S. dollar revenues in the contract period.

14. Income taxes

The computation of Canfor's income tax expense is as follows:

(thousands of dollars)	1999	1998 (Note 20)
Income (loss) from continuing operations before income taxes	$ 182,907	$ (40,381)
Add (deduct)		
Amounts not deductible for tax purposes	3,416	5,503
Net losses not recognized*	2,667	2,057
Net portion of capital losses (gains) not recognized for tax purposes	889	686
Income not subject to tax	(2,825)	(3,553)
Accounting income (loss) for income tax purposes	$ 187,054	$ (35,688)
Tax (payable) recovery at Canadian federal income tax rate of 38%	$ (71,081)	$ 13,561
Canadian manufacturing and processing allowance	11,129	(2,525)
Surtax on federal taxes	(157)	418
Provincial income taxes	(12,070)	2,721
Foreign taxes	(988)	(33)
Other tax adjustments	(512)	583
	(73,679)	14,725
Large Corporations Tax	(2,317)	(2,334)
Income tax (payable) recovery	$ (75,996)	$ 12,391
Effective tax rate		
Excluding Large Corporations Tax	39.4%	41.3%
Including Large Corporations Tax	40.6%	34.7%

* The potential tax benefit of cumulative accounting losses of $910,000 (1998 – $11,217,000) has not been recognized in the financial statements.

In addition, Canfor and its affiliates (excluding Howe Sound Pulp and Paper Limited) have $26,483,000 (1998 – $21,510,000) of allowable capital losses for income tax purposes.

15. Segmented information

Information relating to Canfor's business on a segmented basis is set out in the Statement of Segmented Information.

16. Related party transactions

Canfor purchases pulp chips and lumber from Lakeland Mills Ltd. and The Pas Lumber Company Ltd. at market based prices. During 1999, Canfor purchased $12.6 million in pulp chips and $16.5 million in lumber (1998 – $13.8 million and $12.2 million respectively).

17. Unusual items

(thousands of dollars)	1999	1998
Restructuring and retirement costs	$ –	$ (24,472)
Plant closures	–	(15,500)
Gain on sale of assets	–	3,450
Other	–	(1,452)
	$ –	$ (37,974)

During 1998, Canfor undertook a review of its administrative functions, which resulted in the streamlining of their activities throughout the company. These actions involved staff reductions and other changes, which necessitated severance payments, early retirement costs and other costs related to making these changes.

During 1998, Canfor announced the closure of its Netherlands Sawmill effective March 1999.

The gain on the sale of assets in 1998 relates to the sale of Canfor's lumber remanufacturing operation at Meridian, Idaho, which is partly offset by a loss on the sale of Balfour Timber Limited, a wholly owned subsidiary in the United Kingdom.

18. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the corporation, including those related to customers, suppliers, or other third parties, have been fully resolved.

As of the date of this report, Canfor has not suffered any loss of production, disruption of shipments to customers, disruption of shipments from suppliers or unusual costs resulting from a Year 2000 Issue.

19. Howe Sound Pulp and Paper Limited

During 1998, Canfor entered into discussions with Oji Paper Co., Ltd., co-venturer in Howe Sound Pulp and Paper Limited, regarding the restructuring of the joint venture. Canfor has determined that it will not recover its investment in Howe Sound Pulp and Paper Limited and, accordingly, has written off its investment. Management continues to believe there is no further exposure to loss from this investment. Financial information with respect to Canfor's interest in this joint venture is presented below:

a. Net loss from Howe Sound Pulp and Paper Limited

Year ended December 31 (thousands of dollars)	1999	1998
Net sales	**$ 190,947**	$ 174,695
Costs and expenses	**179,423**	180,908
Operating income (loss)	**11,524**	(6,213)
Interest and other expenses	**(15,074)**	(16,707)
Loss before income taxes	**(3,550)**	(22,920)
Income tax expense	**(1,181)**	(3,055)
Net loss	**$ (4,731)**	$ (25,975)

b. Financial position of Howe Sound Pulp and Paper Limited

Year ended December 31 (thousands of dollars)	1999	1998
Assets		
Current assets	$ 73,710	$ 71,757
Fixed assets	474,432	492,120
Other assets	44,897	51,420
	593,039	615,297
Less asset write-down	141,178	145,909
	451,861	469,388
Liabilities*		
Current liabilities	53,145	51,500
Long-term debt	348,716	367,783
Other liabilities	–	105
Minority interest	50,000	50,000
	451,861	469,388
Net investment	$ –	$ –

* The liabilities of Howe Sound Pulp and Paper Limited are non-recourse to Canfor.

c. Cash position of Howe Sound Pulp and Paper Limited

Year ended December 31 (thousands of dollars)	1999	1998
Operating		
Net loss	$ (4,731)	$ (25,975)
Adjustments for non-cash items:		
Depreciation, depletion and amortization	24,046	34,167
Other operating items	4,499	(7,755)
	23,814	437
Financing		
Repayment of long-term debt	(6,067)	(91,484)
Proceeds from long-term debt	–	73,726
	(6,067)	(17,758)
Investing	(7,291)	(7,147)
Increase (decrease) in net cash for year	$ 10,456	$ (24,468)

d. Howe Sound Pulp and Paper Limited has not recognized the tax benefit of $168,920,000 (1998 – $168,790,000) accounting losses in the financial statements. A further $77,083,000 (1998 – $76,352,000) of allowable capital losses for accounting purposes has not been recognized in the financial statements.

20. **Comparative figures**

Certain prior years figures have been restated to conform to the 1999 presentation.

21. **Subsequent events**

On January 1, 2000, Northwood Inc. was amalgamated with Canadian Forest Products Ltd., a subsidiary of the Company.

SUBSIDIARY COMPANIES WHOLLY OWNED

Active

Balfour Timber Limited*

Canfor Europe

Canfor Limited

Howe Sound Transportation Company Limited

Northwood Inc. (Notes 2 and 21)

Canfor Pulp and Paper Marketing Ltd.

Northwood Properties Limited

Nanika Timber Limited

Canadian Forest Products Ltd.

Canfor U.S.A. Corporation

317231 British Columbia Ltd.

B.C. Chemicals Ltd.**

Canfor Wood Products Marketing Ltd.

Canfor Panel and Fibre Marketing Ltd. (formerly Balfour Guthrie Forest Products Ltd.)

Northwood Waferboard Limited

Eastline Cedar Ltd.

Inactive

Canfor Hong Kong Corporation

Willowcale Storage Inc.

3423182 Canada Inc.

Eburne Sawmills Limited

Stoney Creek Pine Ltd.

Canfor Japan Corporation

* Balfour Timber Limited was sold on December 7, 1998.

** B.C. Chemicals Ltd. and B.C. Chemicals Company, previously reported as 50% joint venture interests, became 100% owned through the acquisition of the co-venturer, Northwood Inc.

JOINT VENTURES PROPORTIONATELY CONSOLIDATED

Canwel Distribution Ltd. (50% interest)
– sold December 31, 1999 (Note 2)

Kyahwood Forest Products (49% interest)

Chunzoolh Forest Products (50% interest)

Canfor Georgia-Pacific Japan Corporation (50% interest)

OTHER JOINT VENTURES

Howe Sound Pulp and Paper Limited (50% interest) (Note 19)

INVESTMENTS EQUITY ACCOUNTED

Lakeland Mills Ltd.

The Pas Lumber Company Ltd.

Vernon Seed Orchard Co.

Chunzoolh Forest Products Ltd. (51%)

Net Income per Common Share
is the net income for the year, less provision for preferred dividends in the year, divided by the weighted-average number of common shares outstanding during the year.

Cash Flow from Operations per Common Share
is the cash flow from operations for the year, before interest and income tax, divided by the weighted average number of common shares outstanding during the year.

Common Shareholders' Equity per Common Share
is the shareholders' equity excluding preferred share capital at the end of the year, divided by the number of common shares outstanding at the end of the year.

Total Capitalization
is comprised of long-term liabilities, deferred income taxes, non-controlling interest and shareholders' equity.

Capital Employed
consists of the funds invested or retained in Canfor in the form of shares or liabilities. It is composed of unpresented cheques, current bank loans (net of cash and temporary investments), current portion of long-term debt, long-term debt, deferred income taxes, non-controlling interest and shareholders' equity. Long-term liabilities such as deferred reforestation costs and unfunded pension and retirement benefits are specifically excluded because they do not represent borrowed funds or funds invested by shareholders.

Net Debt
is total debt less cash and temporary investments.

Return on Assets
is equal to net income plus interest, after tax, divided by the average of the total assets at the beginning and end of the year.

Return on Capital Employed
is equal to net income plus interest, after tax, divided by the average of the capital employed during the year.

Return on Common Shareholders' Equity
is equal to net income for the year, divided by the average of the shareholders' equity at the beginning and end of the year.

Number of Employees at Year-End
is the actual number of employees, salaried and hourly, full-time and part-time, permanent and temporary, who are considered as employees of Canfor. This number includes employees who are on vacation, leave of absence, workers' compensation, long-term disability or who are laid-off as the result of temporary shut-down.

CANFOR CORPORATION
STATEMENT OF SEGMENTED INFORMATION

	Net Sales to External Customers	Net Sales to Other Segments	Operating Income (Loss)	Depreciation, Depletion and Amortization	Net Capital Expenditures	Identifiable Assets
12 months ended December 31, 1999						
Northern Wood Products	**$ 1,092.9**	**$ 56.1**	**$ 160.1**	**$ 25.6**	**$ 63.3**	**$ 1,022.0**
Pulp and Specialty Kraft Paper	**430.4**	–	**45.3**	**29.1**	**43.5**	**934.1**
Coast Wood Products (Note 3)	**211.0**	**19.0**	**30.9**	**12.5**	**12.2**	**110.6**
Chemicals (Note 4)	**16.0**	**9.2**	**4.8**	**2.4**	**0.3**	**51.3**
	1,750.3	**84.3**	**241.1**	**69.6**	**119.3**	**2,118.0**
Corporate	–	–	**(23.2)**	**0.6**	**0.6**	**229.6**
Equity income (loss) of affiliated companies	–	–	**7.8**	–	–	–
Net interest expenses	–	–	**(33.2)**	–	–	–
Other income	–	–	**(9.6)**	–	–	–
Unusual items	–	–	–	–	–	–
Income tax (expense) recovery	–	–	**(76.0)**	–	–	–
Discontinued operations (Note 5)	–	–	**(4.3)**	–	–	–
	$ 1,750.3	**$ 84.3**	**$ 102.6**	**$ 70.2**	**$ 119.9**	**$ 2,347.6**
12 months ended December 31, 1998						
Northern Wood Products	$ 903.5	$ 57.8	$ 49.2	$ 27.9	$ 11.8	$ 475.1
Pulp and Specialty Kraft Paper	347.3	–	14.9	25.3	20.8	506.9
Coast Wood Products (Note 3)	152.8	25.3	(0.5)	9.8	8.0	110.4
Chemicals (Note 4)	14.4	6.6	4.0	2.4	0.2	27.1
	1,418.0	89.7	67.6	65.4	40.8	1,119.5
Corporate	–	–	(34.5)	(0.2)	–	235.5
Equity income (loss) of affiliated companies	–	–	(5.6)	–	–	–
Net interest expenses	–	–	(38.0)	–	–	–
Other income	–	–	8.1	–	–	–
Unusual items	–	–	(38.0)	–	–	–
Income tax (expense) recovery	–	–	12.4	–	–	–
Discontinued operations (Note 5)	–	–	(3.8)	–	–	39.9
HSPP loss and write-off of investment (Note 6)	–	–	(171.9)	–	–	–
	$ 1,418.0	$ 89.7	$ (203.7)	$ 65.2	$ 40.8	$ 1,394.9

12 months ended December 31	**1999**	1998
Summary of consolidated shipments		
Logs – 000 m³	**1,759.7**	1,402.5
Lumber – MMfbm		
Canfor produced	**1,433.8**	1,422.6
Other producers	**537.1**	397.8
Pulp – 000 mt	**548.7**	449.5
Kraft paper – 000 mt	**102.7**	102.4

1. Sales to other segments are accounted for at prices which approximate market.
2. Operations are presented by product lines. Operations are considered to be in one geographic area (Canada), since the subsidiary in the United States is not significant to the total.
3. Coast Wood Products includes hardboard sales and refined fibre and fibremat sales of $13.5 and $22.2 million respectively (1998: $12.4 and $19.8 million).
4. 50% joint venture interest in B.C. Chemicals Ltd. and B.C Chemicals Company to November 22, 1999, and 100% thereafter, as a result of the acquisition of Northwood Inc., the co-venturer.
5. 50% joint venture interest in CanWel, which was sold on December 31, 1999.
6. Canfor has an investment in Howe Sound Pulp and Paper Limited, herein referred to as "HSPP".

FIVE-YEAR COMPARATIVE REVIEW

	1999	1998	1997	1996	1995
Sales and income (millions of dollars)					
Net sales	**$ 1,750.3**	$ 1,418.0	$ 1,548.4	$ 1,513.2	$ 1,599.1
Manufacturing and product costs	**1,414.3**	1,260.1	1,359.7	1,312.3	1,312.2
Depreciation, depletion and amortization	**70.2**	65.2	67.1	69.7	68.7
Selling and administration	**47.9**	59.6	63.7	60.7	54.2
Equity (income) loss of affiliated companies	**(7.8)**	5.6	(0.7)	(1.6)	–
Interest expense	**33.2**	38.0	34.2	36.1	42.4
Other (income) expense	**9.6**	(8.1)	(8.2)	(3.4)	1.1
Unusual items – (income) loss	**–**	38.0	39.3	–	(3.6)
Income (loss) from continuing operations before income taxes	**182.9**	(40.4)	(6.7)	39.4	124.1
Income tax (expense) recovery	**(76.0)**	12.4	4.6	(23.1)	(53.5)
Income (loss) from continuing operations before losses related to HSPP	**106.9**	(28.0)	(2.1)	16.3	70.6
Discontinued operations	**(4.3)**	(3.8)	(2.9)	(0.7)	(2.6)
Loss from and write-off of investment in HSPP net of taxes	**–**	(171.9)	(27.9)	(72.5)	(22.4)
Net income (loss)	**$ 102.6**	$ (203.7)	$ (32.9)	$ (56.9)	$ 45.6
Per common share (in dollars)					
Before discontinued operations and losses related to HSPP	**$ 1.75**	$ (0.48)	$ (0.04)	$ 0.28	$ 1.21
Basic	**1.68**	(3.49)	(0.56)	(0.97)	0.79
Fully diluted	**1.61**	(3.49)	(0.56)	(0.97)	0.79
Dividends paid on common shares	**–**	0.065	0.26	0.26	0.26
Book value per share	**11.12**	7.30	10.83	11.64	12.87
Assets and capitalization (millions of dollars)					
Working capital	**$ (15.2)**	$ 261.0	$ 307.7	$ 310.4	$ 154.9
Long-term investments	**69.8**	62.2	62.1	83.4	81.4
Property, plant, equipment and timber	**1,384.8**	610.4	641.9	664.2	681.0
Other assets and deferred charges	**93.1**	99.3	66.6	45.2	49.7
HSPP assets	**–**	–	171.9	199.7	272.2
Net assets	**$ 1,532.5**	$ 1,032.9	$ 1,250.2	$ 1,302.9	$ 1,239.2
Long-term liabilities	**$ 491.7**	$ 510.7	$ 513.8	$ 497.4	$ 361.3
Deferred income taxes	**139.0**	96.2	104.4	126.6	127.1
Common shareholders' equity	**901.8**	426.0	632.0	678.9	750.8
Total capitalization	**$ 1,532.5**	$ 1,032.9	$ 1,250.2	$ 1,302.9	$ 1,239.2
Additions to property, plant, equipment and timber (millions of dollars)	**$ 119.9**	$ 40.8	$ 60.5	$ 58.9	$ 64.9

FIVE-YEAR COMPARATIVE REVIEW

	1999	1998	1997	1996	1995
Cash generated from (used in) (in millions of dollars)					
Operating activities	**$ 210.9**	$ 90.0	$ 55.2	$ 173.4	$ 120.6
Financing activities					
Long-term debt	**19.5**	(12.2)	(7.5)	33.0	63.4
Common shares	**239.5**	–	–	–	22.5
Dividends paid	**–**	(3.8)	(15.2)	(15.2)	(15.0)
	259.0	(16.0)	(22.7)	17.8	70.9
Investing activities					
Property, plant, equipment and timber	**(119.9)**	(40.8)	(60.5)	(58.9)	(64.9)
Investment in subsidiaries and affiliates	**(433.2)**	–	–	–	(102.6)
Sale of investments and other	**13.5**	8.4	23.2	(4.1)	(8.6)
	(539.6)	(32.4)	(37.3)	(63.0)	(176.1)
Increase (decrease) in net cash					
from continuing operations	**(69.7)**	41.6	(4.8)	128.2	15.4
from discontinued operations	**13.8**	3.9	(1.4)	(5.8)	0.3
	$ (55.9)	$ 45.5	$ (6.2)	$ 122.4	$ 15.7
Financial statistics					
Return on capital employed	**12.3%**	(10.9)%	0.3%	(0.8)%	5.5%
Return on common shareholders' equity	**15.4%**	(38.5)%	(5.0)%	(8.0)%	6.3%
Ratio of current assets to current liabilities (a)	**1:1**	1.7:1	2.1:1	2:1	1.4:1
Ratio of total debt to shareholders' equity (a)	**45:55**	56:44	59:41	44:56	41:59
Production statistics					
Pulp – thousands of metric tonnes	**521.8**	453.2	428.3	407.4	434.0
Kraft paper – thousands of metric tonnes	**103.7**	104.6	95.6	89.8	94.3
Lumber – millions of board feet	**1,423.8**	1,378.3	1,425.6	1,479.8	1,430.8
Hardboard – millions of square feet 3/8" inch equivalent	**22.9**	23.8	23.8	25.3	24.2
Refined fibre – thousands of metric tonnes	**33.9**	29.4	36.0	29.5	24.6
Sales by product line					
Log sales	**10%**	9%	6%	5%	7%
Pulp and kraft paper	**26**	26	23	23	33
Lumber-Canfor Produced	**42**	46	50	55	40
Lumber-Other Producers	**17**	14	14	13	16
Miscellaneous	**5**	5	7	4	4
	100%	100%	100%	100%	100%
Sales by market					
Canada	**22%**	21%	17%	16%	18%
United States	**56**	58	54	50	44
Europe	**10**	11	13	12	18
Far East	**11**	9	15	21	19
Other	**1**	1	1	1	1
	100%	100%	100%	100%	100%

Prior year's figures have been restated to conform to the 1999 presentation

(a) These ratios have been restated to exclude the assets, liabilities and debt of Howe Sound Pulp and Paper Limited.

Directors

The names and municipalities of residence of the Directors of the Company, their principal occupations and the periods during which they have been directors of the Company are as follows:

Name and Municipality of Residence	Principal Occupation	Director Since
A.G. Armstrong, Q.C. (1) Vancouver, British Columbia	Senior Vice-President, Corporate Development Canfor	1983
P.J.G. Bentley, O.C. (1) (3) Vancouver, British Columbia	Chairman of the Board, Canfor	1966
R.L. Cliff, C.M., F.C.A. (1) (2) (3) (4) West Vancouver, British Columbia	Chairman of the Board, BC Gas Inc.	1983
C.W. Daniel, O.C. (3) (4) Toronto, Ontario	Corporate Director; Consultant	1985
D.L. Emerson (1) Vancouver, British Columbia	President and Chief Executive Officer, Canfor	1998
M.E. Hurst (4) Vancouver, British Columbia	Educational Author	1987
J.B. Jarvis (1) (2) Vancouver, British Columbia	Corporate Director	1966
P.A. Lusztig (2) (4) Vancouver, British Columbia	Dean Emeritus, University ofBritish Columbia; Commissioner (Federal), B.C. Treaty Commission	1983
E.P. Newell, O.C. (4) Fort McMurray, Alberta	Chairman and Chief Executive Officer, Syncrude Canada Inc.	1999 (5)
M.E.J. Phelps (1) (3) (4) West Vancouver, British Columbia	Chairman and Chief Executive Officer, Westcoast Energy Inc.	1990
R.T. Riley (4) Montreal, Quebec	Vice-President of L.B.G. Capital, a Division of National Bank Financial	1987

(1) Member of the Executive Committee, which acts generally on behalf of the Board of Directors between meetings.
(2) Member of the Audit Committee, which reviews the Company's financial statements, the scope and results of the external auditor's work, the adequacy of internal accounting and audit programs and compliance with accounting and reporting standards.
(3) Member of the Management Resources and Compensation Committee, which makes recommendations to the board regarding the Company's pension plans and the remuneration of its directors and senior officers and ensures management development and succession programs are in place.
(4) Member of the Corporate Governance Committee, which ensures that the Company through its Board of Directors sustains an effective approach to corporate governance.
(5) Effective September 22, 1999.

The term of office of each Director expires on the date of the next Annual General Meeting of the Company.

Officers

The names and municipalities of residence of the Officers of the Company and the offices held by them are as follows:

Name and Municipality of Residence	Office and Principal Occupation
P.J.G. Bentley, O.C. Vancouver, British Columbia	Chairman
D.L. Emerson Vancouver, British Columbia	President and Chief Executive Officer
C.T. Hazelwood Prince George, British Columbia	Executive Vice-President, Operations
A.G. Armstrong, Q.C. Vancouver, British Columbia	Senior Vice-President, Corporate Development
C.W. Reid White Rock, British Columbia	Group Vice-President, Finance and Chief Financial Officer
B.R. Hislop Vancouver, British Columbia	Group Vice-President, Wood Products
R.A. Luoma Prince George, British Columbia	Group Vice-President, Pulp
C.A. Arnesen West Vancouver, British Columbia	Vice-President, Pulp and Paper Marketing
K.O. Higginbotham Surrey, British Columbia	Vice-President, Forestry and Environment
J.K. Pau Vancouver, British Columbia	Vice-President and Treasurer
R.L. Waldie Prince George, British Columbia	Vice-President, Human Resources
R.F. Weinman North Vancouver, British Columbia	Vice-President and Secretary
J.R. Williams Delta, British Columbia	Vice-President, Coast Timber
S.L. Yurkovich Vancouver, British Columbia	Vice-President, Corporate Affairs
R.B. Haslam West Vancouver, British Columbia	Corporate Controller

CORPORATE AND SHAREHOLDER INFORMATION

Annual General Meeting
Canfor's Annual General Meeting will be held at the Four Seasons Hotel, Pavillon Room, 791 West Georgia Street, Vancouver, B.C., on Friday, April 28, 2000 at 11:30 a.m.

Transfer Agent and Registrar
CIBC Mellon Trust Company
Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal and Halifax

Stock Listing
Toronto Stock Exchange
Symbol: CFP

1999 Price Range of Common Shares
High: $17.05 Low: $4.25

Number of Common Shares Outstanding
81,078,447 Shares at December 31, 1999

Weighted Average Number of Common Shares Outstanding During 1998
60,779,568

Investor Contact
Charles W. Reid
Group Vice-President, Finance and Chief Financial Officer
Telephone: (604) 661-5200
Fax: (604) 661-5484

Auditors
PricewaterhouseCoopers, Vancouver, B.C.

Head Office
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1055 Dunsmuir Street
Vancouver, B.C. V7X 1B5

Canfor also produces an Annual Information Form. To obtain this publication or more information about the company, please contact Canfor Corporation, Corporate Affairs.

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Web: www.canfor.com

Corporate Profile

Canfor Corporation is a leading Canadian integrated forest products company based in Vancouver, B.C. The company employs approximately 6,550 people - 5,800 directly, and 750 through affiliated companies.

Canfor has extensive woodlands operations and manufacturing facilities in British Columbia and Alberta, and a lumber re-manufacturing plant in Washington State. The company is a major producer and supplier of lumber and bleached kraft pulp. It also produces semi-bleached and unbleached kraft pulp, bleached and unbleached kraft paper, plywood, remanufactured lumber products, hardboard panelling and a range of specialized wood products, including baled fibre, fibre mat and moulded fibre items. Howe Sound Pulp and Paper Limited, owned equally by Canfor and Oji Paper Co., Ltd., produces bleached kraft pulp and newsprint.

Canfor's products are sold in global markets. The company has marketing offices in Canada, Europe and Japan.

Canfor Corporation is listed on the Toronto Exchange. The main operating company is Canadian Forest Products Ltd., from which the name Canfor is derived.

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Canfor Corporation

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